

# Section 1

# Introduction and Changes in Law

---

## Introduction

This report contains complete individual income tax data for Tax Year 1999. The statistics are based on a stratified probability sample of individual income tax returns, selected before audit, which represents a population of a little over 127 million Forms 1040, 1040A, 1040EZ, and 1040PC, including electronic returns, filed for Tax Year 1999.

Table A on the following pages presents selected income and tax items for Tax Years 1995, 1996, 1997, 1998, and 1999 as they appear on the forms and provides the percentage change for each item between 1998 and 1999. When comparing income and tax items from different years, it is important to consider any changes in the tax law which may have affected the data. These tax law changes are explained below. To assist inter-year comparisons, Table A includes the items in both current dollars and constant 1990 dollars, as adjusted by the U.S. Department of Labor's consumer price index (CPI-U).

For Tax Year 1999, the number of individual tax returns filed increased by over 2.0 million, or 1.8

percent. Adjusted gross income (AGI) grew \$439.5 billion, or 8.1 percent from 1998 to 1999, compared to the 9.0 percent growth recorded from 1997 to 1998. Total tax liability increased 10.9 percent to \$917.0 billion. Several components of AGI showed sizable increases for 1999: taxable state and local tax refunds increased 22.2 percent; net capital gains increased 19.0 percent; and taxable IRA distributions increased 17.6 percent.

This report is divided into six sections. Section 1 explains the requirements for filing, changes in the law for 1999, and the 1979 Income Concept. Section 2 describes the sample of individual income tax returns upon which the statistics are based. Section 3 contains tables of detailed aggregate statistics on individual tax returns. Section 4 provides explanations of the terms used in the tables. The tax forms appear in Section 5 and Section 6 contains a subject index.

**Table A--Selected Income and Tax Items for Selected Years, 1995-1999, in Current and Constant 1990 Dollars<sup>1</sup>**

[All figures are estimates based on samples--money amounts are in thousands of dollars]

Item	Current dollars					Percent change, 1998 to 1999
	1995	1996	1997	1998	1999	
	(1)	(2)	(3)	(4)	(5)	(6)
<b>All returns*</b> .....	<b>118,218,327</b>	<b>120,351,208</b>	<b>122,421,991</b>	<b>124,770,662</b>	<b>127,075,145</b>	<b>1.8</b>
Form 1040 returns.....	64,774,724	66,264,999	68,781,991	71,162,837	74,165,814	4.2
Electronically filed returns.....	4,130,001	4,905,975	6,972,994	9,450,121	13,173,514	39.4
Form 1040A returns.....	24,463,262	24,579,173	24,780,076	25,987,822	26,961,302	3.7
Electronically filed returns.....	5,975,664	7,083,225	8,475,296	10,285,487	12,462,963	21.2
Form 1040EZ returns.....	21,644,177	21,196,154	21,154,656	20,830,173	20,752,420	-0.4
Electronically filed returns.....	4,618,555	6,964,704	8,839,265	9,150,964	9,858,843	7.7
Form 1040PC returns.....	7,102,740	8,310,882	7,705,268	6,789,831	5,195,609	-23.5
Salaries & wages						
Number of returns.....	101,138,551	102,748,874	104,404,985	106,535,263	108,183,782	1.5
Amount.....	3,201,456,569	3,376,871,545	3,613,918,456	3,879,762,259	4,132,473,459	6.5
Taxable interest received						
Number of returns.....	67,028,830	67,159,338	67,300,571	67,231,792	67,218,877	(2)
Amount.....	154,780,536	165,672,564	171,700,242	178,333,632	175,675,236	-1.5
Tax-exempt interest						
Number of returns.....	5,006,129	5,000,839	4,925,914	4,778,374	4,801,877	0.5
Amount.....	48,518,428	48,216,666	49,016,921	50,223,365	52,513,007	4.6
Dividends in AGI						
Number of returns.....	26,214,195	27,709,581	29,507,639	30,423,274	32,226,492	5.9
Amount.....	94,592,325	104,254,986	120,493,432	118,479,991	132,465,522	11.8
State income tax refund						
Number of returns.....	18,261,317	18,352,565	19,218,388	19,544,265	20,811,334	6.5
Amount.....	12,235,548	12,751,223	14,094,351	14,707,844	17,976,204	22.2
Alimony received						
Number of returns.....	427,060	415,593	413,109	437,410	418,989	-4.2
Amount.....	4,339,781	4,592,121	4,965,883	5,118,123	5,455,497	6.6
Business or profession net income, less loss						
Number of returns.....	16,172,851	16,735,827	16,937,575	17,104,786	17,312,125	1.2
Amount.....	169,343,327	176,903,956	186,741,216	202,400,115	208,414,067	3.0
Net capital gain in AGI less loss						
Number of returns.....	15,284,562	16,636,286	24,240,112	25,690,397	21,493,841	-16.3
Amount.....	166,758,085	245,960,751	356,083,267	446,083,839	530,795,936	19.0
Capital gain distributions reported on Form 1040						
Number of returns.....	4,678,363	5,428,435	N/A	N/A	6,206,662	--
Amount.....	3,657,121	5,856,183	N/A	N/A	11,962,180	--
Sales of property other than capital assets, net gain less loss						
Number of returns.....	1,777,233	1,822,036	1,744,602	1,719,937	1,732,925	0.8
Amount.....	-3,010,038	-2,284,494	-1,460,402	-1,575,698	-1,712,291	-8.7
Total IRA distributions						
Number of returns.....	5,858,634	6,456,820	6,761,089	8,530,379	8,751,378	2.6
Amount.....	59,840,199	70,006,464	79,009,673	133,357,445	125,316,324	-6.0
Taxable IRA distributions in AGI						
Number of returns.....	5,255,882	5,831,146	6,214,044	7,774,091	8,129,376	4.6
Amount.....	37,316,169	45,538,743	55,182,520	74,094,367	87,140,912	17.6
Total pensions & annuities						
Number of returns.....	19,778,915	20,675,450	20,948,184	22,211,348	23,180,716	4.4
Amount.....	311,264,612	344,907,107	382,935,981	441,521,385	508,236,875	15.1
Taxable pensions & annuities in AGI						
Number of returns.....	18,414,601	19,272,307	19,496,575	20,473,407	21,343,646	4.3
Amount.....	221,053,045	238,786,811	259,711,251	280,650,198	304,310,714	8.4
Rents, royalties, partnerships, estates, trusts, etc.						
Number of returns.....	14,158,755	14,371,185	14,480,636	14,647,697	14,536,311	-0.8
Amount.....	148,999,462	175,060,227	198,823,191	219,258,921	246,591,401	12.5
Farm net income less loss						
Number of returns.....	2,219,244	2,188,025	2,160,954	2,091,845	2,046,308	-2.2
Amount.....	-7,849,640	-7,111,985	-6,847,443	-7,933,778	-6,242,916	21.3
Unemployment compensation in AGI						
Number of returns.....	7,985,322	7,995,015	7,124,100	7,082,562	6,775,723	-4.3
Amount.....	19,336,423	19,326,824	17,230,102	16,814,669	17,530,779	4.3
Social security benefits (received)						
Number of returns.....	10,292,449	10,961,473	11,351,510	12,136,792	12,487,903	2.9
Amount.....	119,291,657	130,679,153	139,958,629	154,953,370	163,232,494	5.3
Taxable social security benefits in AGI						
Number of returns.....	6,598,033	7,365,955	8,307,938	8,941,171	9,459,189	5.8
Amount.....	45,715,361	53,203,171	61,557,689	68,702,700	75,078,976	9.3
Foreign earned income exclusion <sup>2</sup> .....						
Number of returns.....	266,129	279,004	297,534	308,284	314,486	2.0
Amount.....	12,284,935	11,982,578	13,170,179	13,455,924	14,136,544	5.1
Net operating loss <sup>2</sup> .....						
Number of returns.....	505,303	503,913	568,443	539,802	578,583	7.2
Amount.....	49,330,982	49,749,182	51,343,546	48,297,886	49,634,620	2.8
Other income, net gain less loss <sup>2</sup> .....						
Number of returns.....	4,623,440	4,698,360	4,737,237	5,088,222	5,160,532	1.4
Amount.....	15,518,117	16,741,080	19,085,136	21,554,040	22,879,779	6.2

Footnotes at end of table.

**Table A--Selected Income and Tax Items for Selected Years, 1995-1999, in Current and Constant 1990 Dollars--Continued<sup>1</sup>**

[All figures are estimates based on samples--money amounts are in thousands of dollars]

Item	Current dollars					Percent change, 1998 to 1999
	1995	1996	1997	1998	1999	
	(1)	(2)	(3)	(4)	(5)	(6)
Total income, net gain less loss						
Number of returns.....	118,113,441	120,289,122	122,332,599	124,652,387	126,840,986	1.8
Amount.....	4,230,493,192	4,578,621,425	5,016,904,666	5,467,503,555	5,912,166,710	8.1
Total taxpayer IRA adjustment						
Number of returns.....	4,300,722	4,374,281	4,068,958	3,868,017	3,687,149	-4.7
Amount.....	8,338,014	8,627,534	8,662,694	8,188,452	7,883,438	-3.7
Student loan interest deduction						
Number of returns.....	N/A	N/A	N/A	3,763,742	4,136,505	9.9
Amount.....	N/A	N/A	N/A	1,730,768	2,254,531	30.3
Medical savings account deduction						
Number of returns.....	N/A	N/A	16,912	42,235	50,393	19.3
Amount.....	N/A	N/A	22,454	62,071	81,977	32.1
One-half of self-employment tax						
Number of returns.....	12,849,084	13,204,164	13,513,228	13,756,483	14,029,609	2.0
Amount.....	13,341,810	14,044,148	14,868,362	15,960,341	16,689,650	4.6
Self-employed health insurance						
Number of returns.....	3,011,145	3,147,032	3,284,842	3,380,867	3,491,539	3.3
Amount.....	2,601,145	2,785,382	3,869,842	4,693,286	6,755,071	43.9
Keogh retirement plan						
Number of returns.....	1,032,102	1,079,413	1,189,981	1,177,487	1,264,007	7.3
Amount.....	8,734,145	8,979,382	10,237,623	11,039,683	11,928,242	8.0
Penalty on early withdrawal of savings						
Number of returns.....	803,838	708,631	918,302	828,922	805,367	-2.8
Amount.....	203,861	167,528	234,237	217,913	236,115	8.4
Alimony paid adjustment						
Number of returns.....	567,947	597,157	623,646	590,898	610,609	3.3
Amount.....	5,225,564	5,668,169	6,311,455	6,877,808	7,247,919	5.4
Foreign housing deductions						
Number of returns.....	5,765	4,055	654	1,543	5,782	274.7
Amount.....	114,619	75,059	16,361	38,994	77,574	98.9
Other adjustments						
Number of returns.....	126,323	120,561	118,629	164,646	198,438	20.5
Amount.....	860,329	618,170	884,074	1,037,209	1,313,318	26.6
Total statutory adjustments						
Number of returns.....	18,208,887	18,424,901	18,785,760	21,998,366	22,659,973	3.0
Amount.....	41,139,577	42,646,933	46,954,680	51,530,709	56,698,800	10.0
Adjusted gross income or loss (AGI)						
Amount.....	4,189,353,615	4,535,974,492	4,969,949,986	5,415,972,847	5,855,467,909	8.1
Total itemized deductions						
Number of returns.....	34,007,717	35,414,589	36,624,595	38,186,186	40,244,305	5.4
Amount.....	527,374,034	572,541,293	620,810,172	676,460,336	741,376,847	9.6
Total standard deduction						
Number of returns.....	83,222,737	83,996,917	84,844,302	85,576,463	85,755,366	0.2
Amount.....	413,584,632	426,102,973	441,695,925	459,457,374	463,960,491	1.0
Basic standard deduction						
Number of returns.....	83,222,737	83,996,917	84,844,302	85,576,463	85,755,366	0.2
Amount.....	401,265,344	412,808,983	428,362,726	445,400,450	449,696,182	1.0
Additional standard deduction						
Number of returns.....	10,809,600	11,042,761	11,136,379	11,081,634	11,200,024	1.1
Amount.....	12,319,288	13,293,990	13,333,199	14,056,924	14,264,309	1.5
AGI less deductions						
Number of returns.....	106,211,028	107,919,330	110,720,898	111,924,583	113,863,898	1.7
Amount.....	3,326,498,893	3,615,875,867	3,984,130,897	4,357,840,879	4,730,367,366	8.5
Number of exemptions.....	237,164,486	238,626,393	241,279,259	245,592,958	248,657,119	1.2
Exemption amount.....	584,509,487	598,860,677	627,825,050	650,347,285	669,241,317	2.9
Taxable income						
Number of returns.....	94,612,292	96,576,755	99,314,519	100,801,271	102,845,571	2.0
Amount.....	2,813,826,386	3,089,667,389	3,429,109,165	3,780,838,200	4,136,119,714	9.4
Tax from table, rate schedules, etc.						
Number of returns.....	94,482,512	96,513,834	99,217,292	100,793,439	102,831,402	2.0
Amount.....	595,744,087	666,575,498	738,819,027	813,227,104	906,345,754	11.5
Additional taxes						
Number of returns.....	65,179	36,237	59,250	47,690	36,960	-22.5
Amount.....	424,567	148,670	663,002	341,757	466,001	36.4
Income tax before credits						
Number of returns.....	94,497,909	96,522,237	99,225,503	100,797,716	102,834,362	2.0
Amount.....	596,168,654	666,724,167	739,482,029	813,568,861	906,811,755	11.5
Child care credit						
Number of returns.....	5,964,253	5,974,146	5,795,530	6,128,155	6,182,193	0.9
Amount.....	2,517,962	2,531,383	2,464,005	2,660,573	2,675,147	0.5
Credit for elderly or disabled						
Number of returns.....	251,524	168,012	190,343	180,473	181,813	0.7
Amount.....	48,028	31,836	41,281	35,689	33,629	-5.8
Child tax credit						
Number of returns.....	N/A	N/A	N/A	24,810,781	26,016,019	4.9
Amount.....	N/A	N/A	N/A	15,143,468	19,398,625	28.1
Education credits						
Number of returns.....	N/A	N/A	N/A	4,652,596	6,436,654	38.3
Amount.....	N/A	N/A	N/A	3,376,647	4,772,443	41.3
Adoption credit						
Number of returns.....	N/A	N/A	30,721	40,668	47,349	16.4
Amount.....	N/A	N/A	58,522	83,046	103,016	24.0
Foreign tax credit						
Number of returns.....	1,730,566	2,105,799	2,334,015	2,995,294	3,266,544	9.1
Amount.....	2,965,313	3,538,835	4,073,461	4,677,022	4,941,010	5.6

Footnotes at end of table.

**Table A--Selected Income and Tax Items for Selected Years, 1995-1999, in Current and Constant 1990 Dollars--Continued<sup>1</sup>**

[All figures are estimates based on samples--money amounts are in thousands of dollars]

Item	Current dollars					Percent change, 1998 to 1999
	1995	1996	1997	1998	1999	
	(1)	(2)	(3)	(4)	(5)	(6)
General business credit						
Number of returns.....	267,527	297,511	306,254	272,197	287,658	5.7
Amount.....	702,906	742,891	826,320	732,487	783,920	7.0
Prior year minimum tax credit						
Number of returns.....	106,592	117,414	118,571	108,583	166,010	52.9
Amount.....	468,755	669,545	681,282	818,389	996,461	21.8
Total credits <sup>3</sup>						
Number of returns.....	8,263,198	8,583,103	8,712,146	32,114,860	34,813,611	8.4
Amount.....	6,894,461	7,740,814	8,410,868	27,823,908	33,974,279	22.1
Income tax less credits <sup>1</sup>						
Number of returns.....	94,020,926	96,051,501	98,794,570	96,581,077	97,752,068	1.2
Amount.....	589,274,192	658,983,353	731,071,161	785,744,954	872,837,476	11.1
Self-employment tax						
Number of returns.....	12,850,372	13,217,169	13,515,150	13,757,431	14,029,609	2.0
Amount.....	26,678,859	28,094,894	29,738,153	31,914,256	33,372,365	4.6
Alternative minimum tax						
Number of returns.....	414,106	477,898	618,072	853,433	1,018,063	19.3
Amount.....	2,290,576	2,812,746	4,005,101	5,014,549	6,477,697	29.2
Recapture taxes						
Number of returns.....	7,416	12,207	26,922	22,300	12,243	-45.1
Amount.....	51,517	70,167	133,018	238,980	215,699	-9.7
Social security, Medicare tax on tip income not reported						
Number of returns.....	267,601	286,946	267,055	245,028	254,489	3.9
Amount.....	43,651	32,100	27,826	26,264	29,477	12.2
Tax on qualified retirement plans						
Number of returns.....	3,039,096	3,434,814	3,415,245	3,786,186	4,076,050	7.7
Amount.....	1,780,113	2,189,148	2,335,845	2,699,419	3,074,825	13.9
Advanced earned income credit payments						
Number of returns.....	193,751	192,014	239,664	217,555	171,629	-21.1
Amount.....	124,693	91,737	122,398	105,877	94,004	-11.2
Total tax liability <sup>1,4</sup>						
Number of returns.....	97,461,757	99,665,343	102,359,516	100,813,446	102,194,476	1.4
Amount.....	620,965,863	693,027,778	768,290,921	826,621,050	916,992,618	10.9
Income tax withheld						
Number of returns.....	102,436,220	104,213,605	106,483,908	109,144,689	111,193,931	1.9
Amount.....	495,484,153	533,284,434	582,124,212	636,248,491	695,526,980	9.3
Estimated tax payments						
Number of returns.....	11,903,592	12,333,764	12,766,410	13,072,121	13,169,356	0.7
Amount.....	122,489,252	141,571,020	162,584,233	177,750,952	196,915,946	10.8
Earned income credit <sup>1</sup>						
Number of returns.....	19,334,397	19,463,836	19,391,179	19,704,707	19,260,339	-2.3
Amount.....	25,955,575	28,825,258	30,388,582	31,591,789	31,903,081	1.0
Additional child tax credit						
Number of returns.....	N/A	N/A	N/A	754,363	985,579	30.7
Amount.....	N/A	N/A	N/A	508,972	812,404	59.6
Payment with an extension request						
Number of returns.....	1,368,994	1,422,648	1,597,435	1,540,573	1,510,206	-2.0
Amount.....	24,929,343	32,447,235	38,918,434	45,640,225	53,984,319	18.3
Excess social security tax withheld						
Number of returns.....	1,033,189	1,178,757	1,267,562	1,303,642	1,377,613	5.7
Amount.....	1,081,454	1,313,451	1,399,705	1,523,584	1,712,649	12.4
Other payments:						
Form 2439						
Number of returns.....	42,037	87,976	68,097	41,688	37,879	-9.1
Amount.....	67,482	60,178	55,227	46,076	151,723	229.3
Form 4136						
Number of returns.....	519,653	513,815	445,633	446,489	426,878	-4.4
Amount.....	123,815	108,650	101,328	108,376	95,029	-12.3
Total payments <sup>1</sup>						
Number of returns.....	111,098,864	112,926,241	115,138,784	117,835,317	119,809,259	1.7
Amount.....	670,131,074	737,610,226	815,571,720	893,418,466	981,100,157	9.8
Overpayment, total						
Number of returns.....	85,348,771	86,492,206	88,311,237	93,434,624	94,827,237	1.5
Amount.....	119,462,121	128,964,442	140,110,378	167,987,055	182,049,186	8.4
Overpayment refunded						
Number of returns.....	82,744,440	83,668,927	85,381,040	90,233,356	91,600,741	1.5
Amount.....	104,537,379	111,680,967	119,706,937	144,445,788	155,513,635	7.7
Refund credited to next year						
Number of returns.....	3,671,556	3,862,330	4,109,601	4,567,379	4,514,663	-1.2
Amount.....	14,924,742	17,283,475	20,403,441	23,541,268	26,535,551	12.7
Tax due at time of filing						
Number of returns.....	29,734,331	30,601,619	31,198,382	28,429,856	29,200,902	2.7
Amount.....	71,153,015	85,337,201	93,909,641	102,151,442	119,091,512	16.6
Tax penalty						
Number of returns.....	5,177,201	5,530,812	5,920,839	5,019,736	5,285,114	5.3
Amount.....	856,106	955,207	1,080,062	961,802	1,149,865	19.6

Footnotes at end of table

**Table A--Selected Income and Tax Items for Selected Years, 1995-1999, in Current and Constant 1990 Dollars--Continued<sup>1</sup>**

[All figures are estimates based on samples--money amounts are in thousands of dollars]

Item	Constant 1990 dollars <sup>5</sup>					Percent change, 1998 to 1999
	1995	1996	1997	1998	1999	
	(7)	(8)	(9)	(10)	(11)	(12)
<b>All returns*</b> .....	<b>118,218,327</b>	<b>120,351,208</b>	<b>122,421,991</b>	<b>124,770,662</b>	<b>127,075,145</b>	<b>1.8</b>
Form 1040 returns.....	64,774,724	66,264,999	68,781,991	71,162,837	74,165,814	<b>4.2</b>
Electronically filed returns.....	4,130,001	4,905,975	6,972,994	9,450,121	13,173,514	<b>39.4</b>
Form 1040A returns.....	24,463,262	24,579,173	24,780,076	25,987,822	26,961,302	<b>3.7</b>
Electronically filed returns.....	5,975,664	7,083,225	8,475,296	10,285,487	12,462,963	<b>21.2</b>
Form 1040EZ returns.....	21,644,177	21,196,154	21,154,656	20,830,173	20,752,420	<b>-0.4</b>
Electronically filed returns.....	4,618,555	6,964,704	8,839,265	9,150,964	9,858,843	<b>7.7</b>
Form 1040PC returns.....	7,102,740	8,310,882	7,705,268	6,789,831	5,195,609	<b>-23.5</b>
Salaries & wages						
Number of returns.....	101,138,551	102,748,874	104,404,985	106,535,263	108,183,782	<b>1.5</b>
Amount.....	2,745,674,587	2,814,059,621	2,942,930,339	3,093,909,297	3,241,155,654	<b>4.8</b>
Taxable interest received						
Number of returns.....	67,028,830	67,159,338	67,300,571	67,231,792	67,218,877	<b>(Z)</b>
Amount.....	132,744,885	138,060,470	139,821,044	142,211,828	137,784,499	<b>-3.1</b>
Tax-exempt interest						
Number of returns.....	5,006,129	5,000,839	4,925,914	4,778,374	4,801,877	<b>0.5</b>
Amount.....	41,611,002	40,180,555	39,916,059	40,050,530	41,186,672	<b>2.8</b>
Dividends in AGI						
Number of returns.....	26,214,195	27,709,581	29,507,639	30,423,274	32,226,492	<b>5.9</b>
Amount.....	81,125,493	86,879,155	98,121,687	94,481,652	103,894,527	<b>10.0</b>
State income tax refund						
Number of returns.....	18,261,317	18,352,565	19,218,388	19,544,265	20,811,334	<b>6.5</b>
Amount.....	10,493,609	10,626,019	11,477,485	11,728,743	14,098,984	<b>20.2</b>
Alimony received						
Number of returns.....	427,060	415,593	413,109	437,410	418,989	<b>-4.2</b>
Amount.....	3,721,939	3,826,768	4,043,879	4,081,438	4,278,821	<b>4.8</b>
Business or profession net income, less loss						
Number of returns.....	16,172,851	16,735,827	16,937,575	17,104,786	17,312,125	<b>1.2</b>
Amount.....	145,234,414	147,419,963	152,069,394	161,403,600	163,462,013	<b>1.3</b>
Net capital gain in AGI less loss						
Number of returns.....	15,284,562	16,636,286	24,240,112	25,690,397	21,493,841	<b>-16.3</b>
Amount.....	143,017,226	204,967,293	289,970,087	355,728,739	416,310,538	<b>17.0</b>
Capital gain distributions reported on Form 1040						
Number of returns.....	4,678,363	5,428,435	N/A	N/A	6,206,662	<b>--</b>
Amount.....	3,136,467	4,880,153	N/A	N/A	9,382,102	<b>--</b>
Sales of property other than capital assets, net gain less loss						
Number of returns.....	1,777,233	1,822,036	1,744,602	1,719,937	1,732,925	<b>0.8</b>
Amount.....	-2,581,508	-1,903,745	-1,189,252	-1,256,537	-1,342,973	<b>-6.9</b>
Total IRA distributions						
Number of returns.....	5,858,634	6,456,820	6,761,089	8,530,379	8,751,378	<b>2.6</b>
Amount.....	51,320,925	58,338,720	64,340,125	106,345,650	98,287,313	<b>-7.6</b>
Taxable IRA distributions in AGI						
Number of returns.....	5,255,882	5,831,146	6,214,044	7,774,091	8,129,376	<b>4.6</b>
Amount.....	32,003,575	37,948,953	44,936,906	59,086,417	68,345,813	<b>15.7</b>
Total pensions & annuities						
Number of returns.....	19,778,915	20,675,450	20,948,184	22,211,348	23,180,716	<b>4.4</b>
Amount.....	266,950,782	287,422,589	311,837,118	352,090,419	398,617,157	<b>13.2</b>
Taxable pensions & annuities in AGI						
Number of returns.....	18,414,601	19,272,307	19,496,575	20,473,407	21,343,646	<b>4.3</b>
Amount.....	189,582,371	198,989,009	211,491,247	223,803,986	238,675,070	<b>6.6</b>
Rents, royalties, partnerships, estates, trusts, etc.						
Number of returns.....	14,158,755	14,371,185	14,480,636	14,647,697	14,536,311	<b>-0.8</b>
Amount.....	127,786,846	145,883,523	161,908,136	174,847,624	193,405,020	<b>10.6</b>
Farm net income less loss						
Number of returns.....	2,219,244	2,188,025	2,160,954	2,091,845	2,046,308	<b>-2.2</b>
Amount.....	-6,732,110	-5,926,654	-5,576,094	-6,326,777	-4,896,405	<b>22.6</b>
Unemployment compensation in AGI						
Number of returns.....	7,985,322	7,995,015	7,124,100	7,082,562	6,775,723	<b>-4.3</b>
Amount.....	16,583,553	16,105,687	14,031,028	13,408,827	13,749,631	<b>2.5</b>
Social security benefits (received)						
Number of returns.....	10,292,449	10,961,473	11,351,510	12,136,792	12,487,903	<b>2.9</b>
Amount.....	102,308,454	108,899,294	113,972,825	123,567,281	128,025,485	<b>3.6</b>
Taxable social security benefits in AGI						
Number of returns.....	6,598,033	7,365,955	8,307,938	8,941,171	9,459,189	<b>5.8</b>
Amount.....	39,206,999	44,335,976	50,128,411	54,786,842	58,885,471	<b>7.5</b>
Foreign earned income exclusion <sup>2</sup> .....						
Number of returns.....	266,129	279,004	297,534	308,284	314,486	<b>2.0</b>
Amount.....	10,535,965	9,985,482	10,724,901	10,730,402	11,087,485	<b>3.3</b>
Net operating loss <sup>2</sup> .....						
Number of returns.....	505,303	503,913	568,443	539,802	578,583	<b>7.2</b>
Amount.....	42,307,875	41,457,652	41,810,705	38,515,061	38,929,114	<b>1.1</b>
Other income, net gain less loss <sup>2</sup> .....						
Number of returns.....	4,623,440	4,698,360	4,737,237	5,088,222	5,160,532	<b>1.4</b>
Amount.....	13,308,848	13,950,900	15,541,642	17,188,230	17,944,925	<b>4.4</b>

Footnotes at end of table

**Table A--Selected Income and Tax Items for Selected Years, 1995-1999, in Current and Constant 1990 Dollars--Continued<sup>1</sup>**

[All figures are estimates based on samples--money amounts are in thousands of dollars]

Item	Constant 1990 dollars					Percent change, 1998 to 1999
	1995	1996	1997	1998	1999	
	(7)	(8)	(9)	(10)	(11)	(12)
Total income, net gain less loss						
Number of returns.....	118,113,441	120,289,122	122,332,599	124,652,387	126,840,986	1.8
Amount.....	3,628,210,285	3,815,517,854	4,085,427,252	4,360,050,682	4,636,993,498	6.4
Total taxpayer IRA adjustment						
Number of returns.....	4,300,722	4,374,281	4,068,958	3,868,017	3,687,149	-4.7
Amount.....	7,150,955	7,189,612	7,054,311	6,529,866	6,183,089	-5.3
Student loan interest deduction						
Number of returns.....	N/A	N/A	N/A	3,763,742	4,136,505	9.9
Amount.....	N/A	N/A	N/A	1,380,198	1,768,260	28.1
Medical savings account deduction						
Number of returns.....	N/A	N/A	16,912	42,235	50,393	19.3
Amount.....	N/A	N/A	18,285	49,498	64,296	29.9
One-half of self-employment tax						
Number of returns.....	12,849,084	13,204,164	13,513,228	13,756,483	14,029,609	2.0
Amount.....	11,442,376	11,703,457	12,107,787	12,727,545	13,089,922	2.8
Self-employed health insurance						
Number of returns.....	3,011,145	3,147,032	3,284,842	3,380,867	3,491,539	3.3
Amount.....	2,230,828	2,321,152	3,151,337	3,742,652	5,298,095	41.6
Keogh retirement plan						
Number of returns.....	1,032,102	1,079,413	1,189,981	1,177,487	1,264,007	7.3
Amount.....	7,490,690	7,482,818	8,336,827	8,803,575	9,355,484	6.3
Penalty on early withdrawal of savings						
Number of returns.....	803,838	708,631	918,302	828,922	805,367	-2.8
Amount.....	174,838	139,607	190,747	173,774	185,188	6.6
Alimony paid adjustment						
Number of returns.....	567,947	597,157	623,646	590,898	610,609	3.3
Amount.....	4,481,616	4,723,474	5,139,621	5,484,695	5,684,642	3.6
Foreign housing deductions						
Number of returns.....	5,765	4,055	654	1,543	5,782	274.7
Amount.....	98,301	62,549	13,323	31,096	60,842	95.7
Other adjustments						
Number of returns.....	126,323	120,561	118,629	164,646	198,438	20.5
Amount.....	737,846	515,142	719,930	827,120	1,030,053	24.5
Total statutory adjustments						
Number of returns.....	18,208,887	18,424,901	18,785,760	21,998,366	22,659,973	3.0
Amount.....	35,282,656	35,539,111	38,236,710	41,093,069	44,469,647	8.2
Adjusted gross income or loss (AGI)						
Amount.....	3,694,315,357	3,890,201,108	4,141,624,988	4,318,957,613	4,592,523,850	6.3
Total itemized deductions						
Number of returns.....	34,007,717	35,414,589	36,624,595	38,186,186	40,244,305	5.4
Amount.....	452,293,340	477,117,744	505,545,743	539,442,054	581,472,037	7.8
Total standard deduction						
Number of returns.....	83,222,737	83,996,917	84,844,302	85,576,463	85,755,366	0.2
Amount.....	354,703,801	355,085,811	359,687,235	366,393,440	363,890,581	-0.7
Basic standard deduction						
Number of returns.....	83,222,737	83,996,917	84,844,302	85,576,463	85,755,366	0.2
Amount.....	344,138,374	344,007,486	348,829,581	355,183,772	352,702,888	-0.7
Additional standard deduction						
Number of returns.....	10,809,600	11,042,761	11,136,379	11,081,634	11,200,024	1.1
Amount.....	10,565,427	11,078,325	10,857,654	11,209,668	11,187,693	-0.2
AGI less deductions						
Number of returns.....	106,211,028	107,919,330	110,720,898	111,924,583	113,863,898	1.7
Amount.....	2,852,915,003	3,013,229,889	3,244,406,268	3,475,152,216	3,710,092,052	6.8
Number of exemptions.....	237,164,486	238,626,393	241,279,259	245,592,958	248,657,119	1.2
Exemption amount.....	501,294,586	499,050,564	511,258,184	518,618,250	524,895,151	1.2
Taxable income						
Number of returns.....	94,612,292	96,576,755	99,314,519	100,801,271	102,845,571	2.0
Amount.....	2,413,230,177	2,574,722,824	2,792,434,173	3,015,022,488	3,244,015,462	7.6
Tax from table, rate schedules, etc.						
Number of returns.....	94,482,512	96,513,834	99,217,292	100,793,439	102,831,402	2.0
Amount.....	510,929,749	555,479,582	601,644,159	648,506,463	710,859,415	9.6
Additional taxes						
Number of returns.....	65,179	36,237	59,250	47,690	36,960	-22.5
Amount.....	364,123	123,892	539,904	272,533	365,491	34.1
Income tax before credits						
Number of returns.....	94,497,909	96,522,237	99,225,503	100,797,716	102,834,362	2.0
Amount.....	511,293,871	555,603,473	602,184,063	648,778,996	711,224,906	9.6
Child care credit						
Number of returns.....	5,964,253	5,974,146	5,795,530	6,128,155	6,182,193	0.9
Amount.....	2,159,487	2,109,486	2,006,519	2,121,669	2,098,155	-1.1
Credit for elderly or disabled						
Number of returns.....	251,524	168,012	190,343	180,473	181,813	0.7
Amount.....	41,190	26,530	33,616	28,460	26,376	-7.3
Child tax credit						
Number of returns.....	N/A	N/A	N/A	24,810,781	26,016,019	4.9
Amount.....	N/A	N/A	N/A	12,076,131	15,214,608	26.0
Education credits						
Number of returns.....	N/A	N/A	N/A	4,652,596	6,436,654	38.3
Amount.....	N/A	N/A	N/A	2,692,701	3,743,093	39.0
Adoption credit						
Number of returns.....	N/A	N/A	30,721	40,668	47,349	16.4
Amount.....	N/A	N/A	47,656	66,225	80,797	22.0
Foreign tax credit						
Number of returns.....	1,730,566	2,105,799	2,334,015	2,995,294	3,266,544	9.1
Amount.....	2,543,150	2,949,029	3,317,151	3,729,683	3,875,302	3.9

Footnotes at end of table.

**Table A--Selected Income and Tax Items for Selected Years, 1995-1999, in Current and Constant 1990 Dollars--Continued<sup>1</sup>**

[All figures are estimates based on samples--money amounts are in thousands of dollars]

Item	Constant 1990 dollars <sup>5</sup>					Percent change, 1998 to 1999
	1995	1996	1997	1998	1999	
	(7)	(8)	(9)	(10)	(11)	(12)
General business credit						
Number of returns.....	267,527	297,511	306,254	272,197	287,658	5.7
Amount.....	602,835	619,076	672,899	584,120	614,839	5.3
Prior year minimum tax credit						
Number of returns.....	106,592	117,414	118,571	108,583	166,010	52.9
Amount.....	402,020	557,954	554,790	652,623	781,538	19.8
Total credits <sup>3</sup>						
Number of returns.....	8,263,198	8,583,103	8,712,146	32,114,860	34,813,611	8.4
Amount.....	5,912,917	6,450,678	6,849,241	22,188,124	26,646,493	20.1
Income tax less credits <sup>1</sup>						
Number of returns.....	94,020,926	96,051,501	98,794,570	96,581,077	97,752,068	1.2
Amount.....	505,380,954	549,152,794	595,334,822	626,590,872	684,578,413	9.3
Self-employment tax						
Number of returns.....	12,850,372	13,217,169	13,515,150	13,757,431	14,029,609	2.0
Amount.....	22,880,668	23,412,412	24,216,737	25,449,965	26,174,404	2.8
Alternative minimum tax						
Number of returns.....	414,106	477,898	618,072	853,433	1,018,063	19.3
Amount.....	1,964,473	2,343,955	3,261,483	3,998,843	5,080,547	27.1
Recapture taxes						
Number of returns.....	7,416	12,207	26,922	22,300	12,243	-45.1
Amount.....	44,183	58,473	108,321	190,574	169,176	-11.2
Social security, Medicare tax on tip income not reported						
Number of returns.....	267,601	286,946	267,055	245,028	254,489	3.9
Amount.....	37,437	26,750	22,660	20,944	23,119	10.4
Tax on qualified retirement plans						
Number of returns.....	3,039,096	3,434,814	3,415,245	3,786,186	4,076,050	7.7
Amount.....	1,526,684	1,824,290	1,902,154	2,152,647	2,411,627	12.0
Advanced earned income credit payments						
Number of returns.....	193,751	192,014	239,664	217,555	171,629	-21.1
Amount.....	106,941	76,448	99,673	84,431	73,729	-12.7
Total tax liability <sup>1,4</sup>						
Number of returns.....	97,461,757	99,665,343	102,359,516	100,813,446	102,194,476	1.4
Amount.....	532,560,774	577,523,148	625,644,072	659,187,440	719,209,896	9.1
Income tax withheld						
Number of returns.....	102,436,220	104,213,605	106,483,908	109,144,689	111,193,931	1.9
Amount.....	424,943,527	444,403,695	474,042,518	507,375,192	545,511,357	7.5
Estimated tax payments						
Number of returns.....	11,903,592	12,333,764	12,766,410	13,072,121	13,169,356	0.7
Amount.....	105,050,816	117,975,850	132,397,584	141,747,171	154,443,879	9.0
Earned income credit <sup>1</sup>						
Number of returns.....	19,334,397	19,463,836	19,391,179	19,704,707	19,260,339	-2.3
Amount.....	22,260,356	24,021,048	24,746,402	25,192,814	25,022,024	-0.7
Additional child tax credit						
Number of returns.....	N/A	N/A	N/A	754,363	985,579	30.7
Amount.....	N/A	N/A	N/A	405,879	637,180	57.0
Payment with an extension request						
Number of returns.....	1,368,994	1,422,648	1,597,435	1,540,573	1,510,206	-2.0
Amount.....	21,380,226	27,039,363	31,692,536	36,395,714	42,340,642	16.3
Excess social security tax withheld						
Number of returns.....	1,033,189	1,178,757	1,267,562	1,303,642	1,377,613	5.7
Amount.....	927,491	1,094,543	1,139,825	1,214,979	1,343,254	10.6
Other payments:						
Form 2439						
Number of returns.....	42,037	87,976	68,097	41,688	37,879	-9.1
Amount.....	57,875	50,148	44,973	36,743	118,998	223.9
Form 4136						
Number of returns.....	519,653	513,815	445,633	446,489	426,878	-4.4
Amount.....	106,188	90,542	82,515	86,424	74,533	-13.8
Total payments <sup>1</sup>						
Number of returns.....	111,098,864	112,926,241	115,138,784	117,835,317	119,809,259	1.7
Amount.....	574,726,479	614,675,188	664,146,352	712,454,917	769,490,319	8.0
Overpayment, total						
Number of returns.....	85,348,771	86,492,206	88,311,237	93,434,624	94,827,237	1.5
Amount.....	102,454,649	107,470,368	114,096,399	133,960,969	142,783,675	6.6
Overpayment refunded						
Number of returns.....	82,744,440	83,668,927	85,381,040	90,233,356	91,600,741	1.5
Amount.....	89,654,699	93,067,473	97,481,219	115,188,029	121,971,478	5.9
Refund credited to next year						
Number of returns.....	3,671,556	3,862,330	4,109,601	4,567,379	4,514,663	-1.2
Amount.....	12,799,950	14,402,896	16,615,180	18,772,941	20,812,197	10.9
Tax due at time of filing						
Number of returns.....	29,734,331	30,601,619	31,198,382	28,429,856	29,200,902	2.7
Amount.....	61,023,169	71,114,334	76,473,649	81,460,480	93,405,107	14.7
Tax penalty						
Number of returns.....	5,177,201	5,530,812	5,920,839	5,019,736	5,285,114	5.3
Amount.....	734,225	796,006	879,529	766,987	901,855	17.6

<sup>1</sup> All items correspond to the Form 1040 line items. Therefore, some may differ from the SOI items shown in the Basic Tables in Section 3.

N/A = Not applicable

<sup>2</sup> Line 21 on Form 1040 consists of other income minus foreign earned income exclusion and net operating loss.

(Z) Less than .05 percent.

<sup>3</sup> Total credits includes the values for mortgage interest tax credit and "other credits" not tabulated here.<sup>4</sup> Total tax liability includes the values for "other taxes" not tabulated here.<sup>5</sup> Inflation-adjusted data were calculated using the consumer price index in the "Economic Report of the President," February 1999, Table B-59; based on 1990=100 when 1990 CPI-U = 130.7; 1999 CPI-U = 166.6; 1998 CPI-U = 163.9; 1997 CPI-U = 160.5; 1996 CPI-U = 156.9; 1995 CPI-U = 152.4.<sup>6</sup> All returns for 1995 includes 233,424 Form 1040T returns.

**Figure 1--General Filing Requirements**

Marital Status	Filing Status	Age	Gross Income
Single (including divorced and legally separated)	Single	under 65	\$7,050
		65 or older	\$8,100
	Head of household	under 65	\$9,100
		65 or older	\$10,150
Married with a child and living apart from spouse during the last six months of 1999	Head of household	under 65	\$9,100
		65 or older	\$10,150
Married and living with spouse at the end of 1999 (or on the date spouse died)	Married, joint return	under 65 (both spouses)	\$12,700
		65 or older (one spouse)	\$13,550
		65 or older (both spouses)	\$14,400
	Married, separate return	any age	\$2,750
Married, not living with spouse at the end of 1999 (or on the date spouse died)	Married, joint or separate return	any age	\$2,750
Widowed in 1997 or 1998 and not remarried in 1999	Single	under 65	\$7,050
		65 or older	\$8,100
	Head of household	under 65	\$9,100
		65 or older	\$10,150
	Qualifying widow(er) with dependent child	under 65	\$9,950
		65 or older	\$10,800

## Requirements for Filing

The filing requirements for Tax Year 1999 were based on gross income, marital status, age, and, to a lesser extent, dependency and blindness. Gross income included all income received in the form of money, property, and services that was not expressly exempt from tax. Generally, a citizen or resident of the United States was required to file a tax return if gross income for the year was at least as much as the amount shown for the appropriate filing status in Figure 1. Figure 2 shows the filing requirements for taxpayers who could be claimed as a dependent by another person (such as a parent).

In addition to the general filing requirements, an individual was obligated to file a return for Tax Year 1999 if he or she:

1. was liable for any of the following taxes:
  - social security or Medicare tax on unreported tip income;
  - uncollected social security, Medicare, or railroad retirement tax on reported tip income or group-term life insurance;
  - alternative minimum tax;
  - tax on an individual retirement arrangement (IRA) or a qualified retirement plan;
  - tax from the recapture of investment credit or low-income housing credit;



## Figure 2.-Filing Requirements for Children and Other Dependents

If someone (such as a parent) can claim the individual as a dependent, and any of the four conditions listed below applies, he or she must file a return.

In this chart unearned income includes taxable interest, ordinary dividends, and capital gain distributions. Earned incomes includes wages, tips, and taxable scholarship and fellowship grants.

**Caution:** If an individual's gross income was \$2,750 or more, he or she generally could not be claimed as a dependent unless the individual was under age 19 or under age 24 and a full-time student.

### 1. Single dependents under 65 must file a return if-

- Earned income was more than \$4,300,
- Unearned income was over \$700,
- Total of earned and unearned income was more than the larger of (a) \$700 or (b) earned income (up to \$4,050) plus \$250.

### 2. Single dependents 65 or older or blind must file a return if-

- Earned income was more than \$5,350 (\$6,400 if 65 or older and blind), or
- Unearned income was more than \$1,750 (\$2,800 if 65 or older and blind), or
- Gross income was more than the total of earned income (up to \$4,050) plus \$250 or \$700, whichever is plus \$1,050 (\$2,100 if 65 or older and blind).

### 3. Married dependents under 65 must file a return if-

- Gross income was at least \$5 and spouse files a separate return on Form 1040 and itemizes deductions.
- Earned income was more than \$3,600, or
- Unearned income was over \$700, or
- Total of earned and unearned income was more than the larger of \$700 or earned income (up to \$3,350) plus \$250.

### 4. Married dependents 65 or older or blind must file a return if-

- Earned income was more than \$4,450 (\$5,300 if 65 or older and blind), or
- Unearned was more than \$1,550 (\$2,400 if 65 or older and blind), or
- Gross income was more than the total of earned income (up to \$3,350) plus \$250 or \$700, whichever is larger, plus \$850 (\$1,700 if 65 or older and blind).
- Gross income was at least \$5 and spouse files a separate return on Form 1040 and itemizes deductions.

- tax from medical savings accounts (MSA);
- 2. received any advanced earned income credit (AEIC) payments.
- 3. had net earnings from self-employment of at least \$400; or
- 4. had wages of \$108.28 or more from a church or qualified church-controlled organization that was exempt from employer

social security and Medicare taxes.

Data shown in this report include individuals who were not required to file tax returns, but did so for any of a number of reasons. For example, an individual might have filed a return to obtain a refund of tax withheld, or take advantage of the earned income credit.

## **Changes in Law or Administrative Procedures**

Major changes in effect for Tax Year 1999 which influenced the Statistics of Income data are listed below. Section 4, Explanation of Terms, provides more detailed explanations and definitions of the terms used in this report.

## **Capital Gain Distributions**

Beginning in 1999, taxpayers who had capital gains only from capital gain distributions could report these distributions directly on the Form 1040. These gains did not have to be reported on a Schedule D.

## **Child Tax Credits**

For 1999, the child tax credit increased to \$500 for each qualifying child under the age of 17. For families with no more than two children, the credit was non-refundable. For families with more than two children, the credit was refundable as the additional child tax credit, subject to certain limitations. The child tax credit was phased out by \$50 for each \$1,000 (or fraction thereof) that AGI exceeded \$110,000 for taxpayers filing jointly, \$55,000 for married filing separately, and \$75,000 for single filers.

## **Earned Income Credit**

The income eligibility level and amount of the earned income credit (EIC) for 1999 were adjusted for inflation. If a taxpayer's "earned income" and modified adjusted gross income for 1999 were both less than \$26,928 and the taxpayer had one qualifying child living with them, the credit could be as much as \$2,312. If the taxpayer had two or more qualifying children living with them and earned less than \$30,580, the credit could be as much as \$3,816. For taxpayers with no qualifying children and earning less than \$10,200, the credit could be as much as \$347.

Taxpayers with investment income totaling more than \$2,350 were not eligible to receive the EIC.

## **Education Credit**

Beginning in 1999, taxpayers who received an education credit on their 1998 return and later received tax-free educational assistance for, or a refund of, an expense used to figure the education credit may have had to recapture all or part of the credit.

## **Exemption Amount**

Indexing for inflation allowed a taxpayer to claim a \$2,750 deduction for each exemption to which he or she was entitled for 1999, an increase over the \$2,700 allowed for 1998. The AGI threshold for the limitation of exemption amounts was also indexed for inflation, increasing from \$124,500 to \$126,600 for single filers; \$186,800 to \$189,950 for married persons filing jointly and surviving spouses; \$155,650 to \$158,300 for heads of household; and \$93,400 to \$94,975 for married persons filing separately. The phaseout of the deduction for exemptions was completed at AGI levels above \$249,100 for single filers; \$312,450 for married persons filing jointly and surviving spouses; \$280,800 for heads of household; and \$156,225 for married persons filing separately. Above these levels, no deduction for exemptions was allowed.

## **Foreign Earned Income Exclusion**

For 1999, the amount of foreign earned income that could have been excluded from income increased from \$72,000 to \$74,000.

## **Itemized Deductions**

If a taxpayer's AGI was greater than \$126,600 (\$63,300 if married filing separately), his or her itemized deductions may have been limited; the threshold was increased from \$124,500 (\$62,250) for 1998, as a result of inflation indexing. The limitation did not apply to deductions for medical and dental expenses, investment interest expenses, casualty or theft losses, and gambling losses; all other deductions were subject to the limitation. To arrive at allowable itemized deductions, total itemized

deductions were reduced by the smaller of: (a) 80 percent of the non-exempt deductions, or (b) 3 percent of the amount of AGI in excess of the limitation threshold.

## **Self-Employed Health Insurance Deduction**

The maximum percentage of self-employed health insurance premiums that a taxpayer could deduct as an adjustment to income rose to 60 percent in 1999, up from 45 percent in 1998.

## **Self-employment Tax**

The ceiling on taxable "self-employment income" was raised for 1999, to \$72,600 for the social security portion (12.4 percent) of the self-employment tax. The limit was \$68,400 for 1998.

## **Standard Deduction**

The standard deduction increased for 1999 as a result of inflation indexing. For single filers, the standard deduction rose from \$4,250 to \$4,300; for married persons filing jointly or surviving spouses, from \$7,100 to \$7,200; for married persons filing separately, from \$3,550 to \$3,600; and for heads of household, from \$6,250 to \$6,350. The amount of standard deduction for a dependent was the greater of \$700 or the dependent's earned income plus \$250 (but not more than the regular standard deduction amount). Taxpayers who were age 65 or over or blind could claim an additional standard deduction amount of \$850 or \$1,050 depending on marital status.

## **Student Loan Interest Deduction**

Beginning in 1999, a deduction allowed eligible taxpayers to deduct up to \$1,500 (up from \$1,000 for 1998) for interest paid on qualified higher education loans. These loans must have gone towards qualified expenses of either the taxpayer, the taxpayer's spouse, or any dependent of the taxpayer at the time the debt was incurred. The education interest deduction was phased out began

with a modified AGI of \$40,000 - \$55,000 (\$60,000 - \$75,000, joint returns).

## **The 1979 Income Concept A Retrospective Income Definition**

In order to analyze changes in income and taxes over a period of years, a consistent definition of income must be used. The income concept available from Federal income tax returns, AGI, was designed to facilitate tax administration, and its definition has changed over time to reflect modifications to the Internal Revenue Code. Tax laws of the 1980's (the Economic Recovery Tax Act of 1981, the Tax Equity and Fiscal Responsibility Act of 1982, the Tax Reform Act of 1984, and the Tax Reform Act of 1986) made significant changes to the components of AGI, which made it more difficult to use AGI for accurate comparisons of income from year to year. For this reason, it was decided to develop an income definition that would be consistent over several years, and would allow comparisons both before and after the major tax legislation of the 1980's.

The result was a retrospective income definition known as the 1979 Income Concept, reflecting a base period from 1979 through 1986. It was calculated using only data available from individual income tax returns. By using the same income items in the calculation each year, its definition was consistent throughout the base years. In addition, this retrospective income definition could be used in future years to compare income by continuing to include the same components that were common to all years.

The calculation of the 1979 Income Concept is shown in Figure 3. Several items partially excluded from AGI for the base years were fully included in this new income measure, the largest of which was capital gains. The full amount of all capital gains, as well as all dividends and unemployment compensation, was included in the income calculation. Total pensions, annuities, IRA distributions, and roll-overs were added, including the non-taxable portions that were excluded from

### Figure 3.-Calculation of the 1979 Income Concept for 1999

#### 1979 Total Income Concept=

##### Income or Loss:

- Salaries and wages <sup>1</sup>
- Interest <sup>1</sup>
- Dividends <sup>1</sup>
- Taxable refunds <sup>1</sup>
- Alimony received <sup>1</sup>
- Capital gains reported on Schedule D minus allowable losses <sup>1</sup>
- Other gains and losses (Form 4797) <sup>1</sup>
- Business net income or loss <sup>1</sup>
- Farm net income or loss <sup>1</sup>
- Rent net income or loss <sup>1</sup>
- Royalty net income or loss <sup>1</sup>
- Partnership net income or loss <sup>1</sup>
- S Corporation net income or loss <sup>1</sup>
- Farm rental net income or loss <sup>1</sup>
- Estate or trust net income or loss <sup>1</sup>
- Unemployment compensation <sup>1</sup>
- Depreciation in excess of straight-line depreciation <sup>2</sup>
- Total pension income <sup>3, 5</sup>
- Other net income or loss <sup>4</sup>
- Net operating loss <sup>1</sup>

##### Deductions:

- Disallowed passive losses (Form 8582) <sup>6</sup>
- Moving expenses <sup>1</sup>
- Alimony paid <sup>1</sup>
- Unreimbursed business expenses <sup>6</sup>

<sup>1</sup> Included in adjusted gross income (less deficit) (AGI) for Tax Year 1999.

<sup>2</sup> Adjustment to add back excess depreciation (accelerated over straight-line depreciation) deducted in the course of a trade or business and included in net income (loss) amounts shown above.

<sup>3</sup> Includes taxable and tax-exempt pension and retirement distributions, including IRA distributions.

<sup>4</sup> Includes an adjustment to add back amounts reported for the foreign-earned income exclusion.

<sup>5</sup> Not fully included in AGI for Tax Year 1999.

<sup>6</sup> Not included in AGI for Tax Year 1999.

AGI. Social security benefits were omitted because they were not reported on tax returns until 1984. Also, any depreciation in excess of straight-line depreciation, which was subtracted in computing AGI, was added back.

Deductions that could be subtracted in the calculation of the 1979 Income Concept were limited to employee business expenses, alimony paid, and moving expenses. These same items were also subtracted in computing AGI until 1987 when unreimbursed business expenses and moving expenses were changed from adjustments to itemized deductions. Starting in 1994, moving expenses were once more made an adjustment to income. The amounts reported for employee business expenses by taxpayers who itemized deductions were subtracted in the calculation of the 1979 Income Concept. Taxpayers who did not itemize deductions, however, could not claim this expense (as well as moving expenses prior to 1994). For this reason, the deduction for these two expenses beginning in 1987 is not completely comparable to that for previous years.

**Table B--All Returns: Selected Income and Tax Items, by Size of Adjusted Gross Income and by 1979 Income Concept, 1999**

[All figures are estimates based on samples- money amounts are in millions of dollars]

Size of income	Income				Salaries and wages			
	1999 Adjusted Gross Income		1979 Income Concept		1999 Adjusted Gross Income		1979 Income Concept	
	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
<b>All returns, total.....</b>	<b>127,075,145</b>	<b>5,855,468</b>	<b>127,075,145</b>	<b>6,028,011</b>	<b>108,183,782</b>	<b>4,132,473</b>	<b>108,183,782</b>	<b>4,132,473</b>
Under \$10,000.....	27,395,857	78,929	26,896,888	75,905	21,262,351	112,479	21,077,636	108,147
\$10,000 under \$20,000.....	24,058,891	358,631	24,088,414	359,038	19,552,417	272,644	19,558,222	273,885
\$20,000 under \$30,000.....	18,359,979	453,535	18,897,258	467,556	15,971,543	368,098	16,116,705	371,407
\$30,000 under \$40,000.....	13,288,379	461,842	13,646,112	473,861	11,798,725	375,543	11,968,462	382,144
\$40,000 under \$50,000.....	9,870,199	441,506	9,908,072	443,702	8,905,488	361,302	8,963,160	364,276
\$50,000 under \$60,000.....	8,026,402	439,620	7,901,527	432,419	7,301,589	357,873	7,223,178	357,098
\$60,000 under \$70,000.....	6,260,846	405,338	5,871,389	379,914	5,672,172	323,366	5,401,468	311,750
\$70,000 under \$80,000.....	4,509,962	336,897	4,345,804	324,634	4,034,569	263,765	3,962,074	261,606
\$80,000 under \$90,000.....	3,381,260	286,572	3,132,521	265,221	3,092,870	225,548	2,885,953	212,042
\$90,000 under \$100,000.....	2,388,717	226,498	2,332,541	221,046	2,167,267	173,847	2,148,614	171,613
\$100,000 under \$125,000.....	3,651,128	405,564	3,596,737	399,156	3,315,806	306,829	3,283,384	301,254
\$125,000 under \$150,000.....	1,780,525	242,778	1,843,640	251,107	1,587,978	174,404	1,641,013	173,776
\$150,000 under \$175,000.....	1,025,888	165,757	1,112,678	179,793	904,879	111,881	990,031	116,177
\$175,000 under \$200,000.....	647,170	120,668	686,608	128,239	553,376	73,987	583,211	74,195
\$200,000 under \$300,000.....	1,214,992	291,899	1,344,482	324,319	1,044,187	176,137	1,153,895	178,527
\$300,000 under \$400,000.....	438,736	151,143	542,910	187,270	369,498	84,311	451,390	90,290
\$400,000 under \$500,000.....	222,832	99,405	269,987	120,554	185,190	51,284	224,119	54,938
\$500,000 under \$1,000,000.....	348,256	235,701	421,978	285,870	291,817	112,011	352,492	116,890
\$1,000,000 or more.....	205,124	653,184	235,600	708,406	172,063	207,163	198,777	212,458

  

Size of income	Taxable interest received				Dividends in AGI		Dividends received	
	1999 Adjusted Gross Income		1979 Income Concept		1999 Adjusted Gross Income		1979 Income Concept	
	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount
	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)
<b>All returns, total.....</b>	<b>67,218,877</b>	<b>175,675</b>	<b>67,218,877</b>	<b>175,675</b>	<b>32,226,492</b>	<b>132,466</b>	<b>32,226,492</b>	<b>132,466</b>
Under \$10,000.....	8,369,846	9,343	8,075,354	9,188	3,910,656	4,240	3,766,598	4,109
\$10,000 under \$20,000.....	8,537,627	15,215	8,396,768	15,031	3,160,249	5,693	3,069,056	5,712
\$20,000 under \$30,000.....	7,946,691	13,082	8,388,808	15,572	2,807,251	5,531	3,090,535	6,957
\$30,000 under \$40,000.....	7,288,150	11,643	7,595,035	13,733	2,662,332	5,486	2,844,771	6,751
\$40,000 under \$50,000.....	6,384,543	10,013	6,466,276	11,088	2,648,093	5,992	2,692,803	7,230
\$50,000 under \$60,000.....	5,873,362	10,078	5,777,604	9,340	2,647,515	6,528	2,573,626	5,744
\$60,000 under \$70,000.....	4,938,854	8,728	4,613,911	7,688	2,426,703	5,746	2,221,507	5,873
\$70,000 under \$80,000.....	3,818,519	7,621	3,665,249	6,734	2,002,510	5,978	1,889,079	4,699
\$80,000 under \$90,000.....	2,979,516	6,511	2,726,944	5,324	1,730,124	4,665	1,580,582	4,135
\$90,000 under \$100,000.....	2,163,600	5,316	2,091,885	4,867	1,342,862	4,170	1,253,181	3,839
\$100,000 under \$125,000.....	3,324,115	9,493	3,282,139	8,626	2,209,715	8,891	2,179,131	7,659
\$125,000 under \$150,000.....	1,661,429	7,074	1,723,663	6,343	1,273,456	6,139	1,297,257	5,925
\$150,000 under \$175,000.....	972,707	4,229	1,049,084	4,119	782,089	4,837	828,200	4,764
\$175,000 under \$200,000.....	610,261	3,856	651,169	3,946	512,038	3,936	523,540	3,639
\$200,000 under \$300,000.....	1,165,209	9,146	1,284,965	9,009	1,009,503	9,663	1,104,110	9,484
\$300,000 under \$400,000.....	424,017	4,713	521,435	4,865	380,747	5,835	463,557	6,125
\$400,000 under \$500,000.....	216,727	3,395	262,626	3,605	202,201	4,046	242,700	4,286
\$500,000 under \$1,000,000.....	341,242	8,963	413,431	9,051	322,453	9,717	381,354	9,837
\$1,000,000 or more.....	202,461	27,258	232,532	27,547	195,996	25,372	224,905	25,697

  

Size of income	Business or profession net income less loss				Sales of capital assets			
	1999 Adjusted Gross Income		1979 Income Concept		1999 Adjusted Gross Income		1979 Income Concept	
	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount
	(17)	(18)	(19)	(20)	(21)	(22)	(23)	(24)
<b>All returns, total.....</b>	<b>17,312,125</b>	<b>208,414</b>	<b>17,312,125</b>	<b>208,414</b>	<b>27,700,503</b>	<b>542,758</b>	<b>27,700,503</b>	<b>542,758</b>
Under \$10,000.....	3,162,439	6,413	2,919,165	4,184	3,530,557	9,175	3,423,755	9,264
\$10,000 under \$20,000.....	2,495,040	16,487	2,523,579	15,461	2,490,502	5,683	2,422,835	5,638
\$20,000 under \$30,000.....	2,000,203	14,424	2,032,375	13,165	2,298,725	5,938	2,507,736	6,675
\$30,000 under \$40,000.....	1,727,363	12,940	1,777,589	12,810	2,250,669	7,270	2,410,674	8,065
\$40,000 under \$50,000.....	1,494,008	11,947	1,505,774	11,302	2,206,375	7,722	2,225,816	8,643
\$50,000 under \$60,000.....	1,286,527	12,141	1,272,525	11,058	2,142,281	8,429	2,104,283	8,515
\$60,000 under \$70,000.....	1,123,586	12,539	1,077,334	11,249	1,967,735	9,024	1,792,164	9,055
\$70,000 under \$80,000.....	777,439	10,205	785,955	10,413	1,689,013	9,486	1,624,261	10,220
\$80,000 under \$90,000.....	648,678	9,608	594,877	8,032	1,515,535	10,013	1,353,678	9,128
\$90,000 under \$100,000.....	430,208	6,667	450,498	7,638	1,187,541	9,230	1,118,399	8,825
\$100,000 under \$125,000.....	715,161	15,175	755,404	16,105	1,986,192	21,626	1,937,963	19,409
\$125,000 under \$150,000.....	405,433	11,743	420,948	11,352	1,140,663	16,208	1,166,890	15,165
\$150,000 under \$175,000.....	243,472	9,489	269,380	9,525	728,155	14,117	774,582	13,975
\$175,000 under \$200,000.....	172,242	7,596	186,020	8,258	497,702	12,358	504,093	11,677
\$200,000 under \$300,000.....	320,494	19,225	357,703	20,658	970,700	35,260	1,048,027	34,709
\$300,000 under \$400,000.....	116,976	9,452	149,894	11,547	380,198	22,458	450,682	23,184
\$400,000 under \$500,000.....	58,396	5,030	72,530	6,511	201,556	18,054	239,608	18,294
\$500,000 under \$1,000,000.....	85,053	8,617	104,681	10,045	319,771	49,283	369,860	49,383
\$1,000,000 or more.....	49,406	8,715	55,893	9,102	196,633	271,424	225,198	272,934

Footnotes at end of table

**Table B--All Returns: Selected Income and Tax Items, by Size of Adjusted Gross Income and by 1979 Income Concept, 1999--Continued**

[All figures are estimates based on samples- money amounts are in millions of dollars]

Size of income	Rents, royalties, and farm rental net income less loss				Partnership and S corporation net income less loss			
	1999 Adjusted Gross Income		1979 Income Concept		1999 Adjusted Gross Income		1979 Income Concept	
	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount
	(25)	(26)	(27)	(28)	(29)	(30)	(31)	(32)
<b>All returns, total.....</b>	<b>9,924,061</b>	<b>25,636</b>	<b>9,924,061</b>	<b>25,636</b>	<b>6,276,617</b>	<b>211,072</b>	<b>6,276,617</b>	<b>211,072</b>
Under \$10,000.....	918,136	-526	868,161	-545	509,021	-17,838	485,911	-17,796
\$10,000 under \$20,000.....	1,068,867	1,001	1,053,460	775	360,027	138	354,429	-183
\$20,000 under \$30,000.....	997,855	342	1,040,311	908	396,904	1,358	405,338	986
\$30,000 under \$40,000.....	962,044	304	1,035,347	412	403,590	1,430	430,955	1,604
\$40,000 under \$50,000.....	836,021	129	856,169	272	435,776	2,465	451,094	2,291
\$50,000 under \$60,000.....	784,597	146	809,857	478	415,404	1,865	401,051	1,824
\$60,000 under \$70,000.....	759,944	224	687,463	13	396,555	2,985	375,797	3,087
\$70,000 under \$80,000.....	619,302	423	571,560	426	360,840	3,135	331,017	2,949
\$80,000 under \$90,000.....	516,671	714	494,802	969	302,520	2,527	288,700	2,711
\$90,000 under \$100,000.....	447,175	720	397,435	406	275,238	4,032	247,706	3,088
\$100,000 under \$125,000.....	670,968	1,370	681,542	1,128	492,403	7,959	482,066	7,428
\$125,000 under \$150,000.....	398,941	1,692	380,682	1,258	363,409	6,897	376,869	7,471
\$150,000 under \$175,000.....	170,414	1,254	205,564	1,340	242,713	7,688	252,852	6,736
\$175,000 under \$200,000.....	140,550	1,651	145,605	1,585	196,729	7,392	194,803	7,510
\$200,000 under \$300,000.....	269,331	3,487	282,049	3,266	443,573	22,592	455,404	21,673
\$300,000 under \$400,000.....	115,715	1,845	136,991	1,973	202,766	15,580	226,145	16,314
\$400,000 under \$500,000.....	65,051	1,587	76,637	1,665	122,528	12,421	132,235	12,972
\$500,000 under \$1,000,000.....	109,740	3,393	122,185	3,391	211,153	35,749	226,305	36,950
\$1,000,000 or more.....	72,740	5,880	78,241	5,916	145,469	92,694	157,941	93,459

  

Size of income	Nondeductible passive losses				Estate and trust net income less loss			
	1999 Adjusted Gross Income		1979 Income Concept		1999 Adjusted Gross Income		1979 Income Concept	
	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount
	(33)	(34)	(35)	(36)	(37)	(38)	(39)	(40)
<b>All returns, total.....</b>	<b>1,117,400</b>	<b>10,068</b>	<b>1,117,400</b>	<b>10,068</b>	<b>556,095</b>	<b>9,884</b>	<b>556,095</b>	<b>9,884</b>
Under \$10,000.....	58,988	1,146	75,019	2,688	59,580	-76	57,928	-78
\$10,000 under \$20,000.....	51,989	168	58,239	309	50,079	172	51,465	182
\$20,000 under \$30,000.....	54,233	197	62,756	117	31,349	126	38,533	148
\$30,000 under \$40,000.....	45,121	243	44,533	87	33,647	167	32,608	181
\$40,000 under \$50,000.....	57,904	430	57,509	146	36,536	209	41,213	290
\$50,000 under \$60,000.....	57,051	273	38,175	132	44,520	315	31,400	222
\$60,000 under \$70,000.....	37,960	134	40,969	260	24,862	229	30,896	200
\$70,000 under \$80,000.....	41,508	97	39,846	129	27,236	111	26,965	129
\$80,000 under \$90,000.....	18,758	107	17,020	150	24,983	184	21,160	231
\$90,000 under \$100,000.....	37,513	154	34,592	250	27,364	211	21,574	166
\$100,000 under \$125,000.....	80,606	508	73,406	343	49,341	639	52,522	723
\$125,000 under \$150,000.....	90,505	626	93,352	523	25,663	449	25,931	298
\$150,000 under \$175,000.....	106,773	587	96,970	437	17,033	342	16,437	353
\$175,000 under \$200,000.....	59,286	473	52,745	399	14,543	229	14,721	270
\$200,000 under \$300,000.....	144,678	1,289	142,513	983	31,555	729	31,208	669
\$300,000 under \$400,000.....	59,578	645	62,945	527	14,483	435	14,189	373
\$400,000 under \$500,000.....	30,127	379	31,230	297	9,771	430	11,468	558
\$500,000 under \$1,000,000.....	49,534	701	57,953	724	18,775	1,396	20,395	1,362
\$1,000,000 or more.....	35,290	1,911	37,628	1,567	14,774	3,587	15,481	3,607

  

Size of income	Pensions and annuities in AGI <sup>1</sup>		Pensions and annuities <sup>1</sup>		Total statutory adjustments			
	1999 Adjusted Gross Income		1979 Income Concept		1999 Adjusted Gross Income		1979 Income Concept	
	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount
	(41)	(42)	(43)	(44)	(45)	(46)	(47)	(48)
<b>All returns, total.....</b>	<b>25,254,917</b>	<b>391,452</b>	<b>27,276,656</b>	<b>633,553</b>	<b>22,659,973</b>	<b>56,699</b>	<b>13,282,807</b>	<b>55,284</b>
Under \$10,000.....	2,205,105	10,781	2,104,529	10,695	3,061,642	2,447	225,318	1,742
\$10,000 under \$20,000.....	4,678,576	40,905	4,653,762	41,080	3,218,888	3,528	657,088	3,286
\$20,000 under \$30,000.....	3,518,946	41,802	4,035,298	50,571	3,053,873	4,663	1,164,253	4,820
\$30,000 under \$40,000.....	2,884,240	39,305	3,200,909	48,431	2,725,575	4,376	1,578,935	5,485
\$40,000 under \$50,000.....	2,270,337	32,707	2,499,945	38,754	2,152,977	3,902	1,558,658	5,461
\$50,000 under \$60,000.....	2,016,996	31,447	2,115,385	38,968	1,787,771	3,648	1,631,359	5,204
\$60,000 under \$70,000.....	1,810,943	32,462	1,641,960	31,765	1,472,468	3,251	1,429,656	4,221
\$70,000 under \$80,000.....	1,382,491	28,325	1,370,440	28,605	996,953	2,724	1,193,933	3,983
\$80,000 under \$90,000.....	982,091	21,106	994,140	22,930	708,719	2,685	798,573	3,133
\$90,000 under \$100,000.....	801,231	17,572	830,845	20,582	509,619	1,942	619,939	2,279
\$100,000 under \$125,000.....	1,070,306	27,681	1,214,919	36,883	877,868	4,005	966,151	4,287
\$125,000 under \$150,000.....	540,942	15,975	739,966	30,464	511,427	2,988	487,427	2,658
\$150,000 under \$175,000.....	289,913	10,587	442,941	22,902	336,833	2,389	266,747	1,607
\$175,000 under \$200,000.....	186,211	8,533	272,470	16,737	235,662	1,935	156,478	1,036
\$200,000 under \$300,000.....	322,696	14,763	545,404	46,048	466,232	4,750	294,390	2,348
\$300,000 under \$400,000.....	111,976	5,976	236,867	32,113	182,068	2,274	104,436	1,093
\$400,000 under \$500,000.....	55,540	2,585	111,158	17,201	96,793	1,163	49,859	551
\$500,000 under \$1,000,000.....	80,284	4,979	174,987	47,250	162,434	2,287	70,842	1,109
\$1,000,000 or more.....	46,093	3,961	90,730	51,575	102,171	1,741	28,765	981

Footnotes at end of table

**Table B--All Returns: Selected Income and Tax Items, by Size of Adjusted Gross Income and by 1979 Income Concept, 1999--Continued**

[All figures are estimates based on samples- money amounts are in millions of dollars]

Size of income	Total itemized deductions				Taxable income			
	1999 Adjusted Gross Income		1979 Income Concept		1999 Adjusted Gross Income		1979 Income Concept	
	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount
	(49)	(50)	(51)	(52)	(53)	(54)	(55)	(56)
<b>All returns, total.....</b>	<b>40,244,305</b>	<b>741,377</b>	<b>40,214,943</b>	<b>708,898</b>	<b>102,845,571</b>	<b>4,136,120</b>	<b>102,845,571</b>	<b>4,136,120</b>
Under \$10,000.....	631,334	7,969	668,469	7,729	8,643,562	15,620	8,589,219	15,983
\$10,000 under \$20,000.....	2,048,407	22,073	2,149,800	20,886	19,183,464	116,661	19,035,698	116,220
\$20,000 under \$30,000.....	3,243,370	34,491	3,435,069	34,481	17,927,628	239,997	18,363,179	248,943
\$30,000 under \$40,000.....	4,233,200	48,169	4,340,253	46,400	13,200,203	284,990	13,512,013	299,672
\$40,000 under \$50,000.....	4,285,183	52,276	4,254,521	50,172	9,837,453	290,994	9,846,602	299,777
\$50,000 under \$60,000.....	4,530,554	60,485	4,497,680	56,842	8,008,743	301,097	7,862,753	301,533
\$60,000 under \$70,000.....	4,365,343	62,822	4,091,276	56,151	6,250,742	282,946	5,843,448	267,672
\$70,000 under \$80,000.....	3,444,677	54,009	3,274,540	49,173	4,503,185	241,485	4,325,499	233,059
\$80,000 under \$90,000.....	2,756,315	46,989	2,535,145	41,487	3,379,256	209,113	3,120,275	191,745
\$90,000 under \$100,000.....	2,017,558	37,545	1,960,791	34,932	2,387,478	167,518	2,325,615	159,604
\$100,000 under \$125,000.....	3,238,720	67,895	3,178,956	63,133	3,648,549	305,909	3,584,788	294,155
\$125,000 under \$150,000.....	1,642,827	40,367	1,660,091	38,308	1,776,045	187,471	1,835,995	184,510
\$150,000 under \$175,000.....	951,838	25,563	1,003,605	25,507	1,025,669	131,859	1,111,073	133,530
\$175,000 under \$200,000.....	601,889	18,977	620,643	17,971	646,420	96,749	685,823	95,710
\$200,000 under \$300,000.....	1,140,623	41,583	1,228,840	41,452	1,213,711	244,500	1,340,794	244,492
\$300,000 under \$400,000.....	405,468	19,315	484,911	20,545	438,387	131,609	537,493	139,630
\$400,000 under \$500,000.....	204,573	11,876	243,472	12,729	222,657	87,432	268,923	93,405
\$500,000 under \$1,000,000.....	315,694	25,712	372,519	26,792	347,693	209,907	421,334	217,288
\$1,000,000 or more.....	186,729	63,260	214,362	64,207	204,728	590,264	235,046	599,190

  

Size of income	Total tax credits				Total income tax			
	1999 Adjusted Gross Income		1979 Income Concept		1999 Adjusted Gross Income		1979 Income Concept	
	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount
	(57)	(58)	(59)	(60)	(61)	(62)	(63)	(64)
<b>All returns, total.....</b>	<b>36,621,595</b>	<b>35,892</b>	<b>36,621,595</b>	<b>35,892</b>	<b>94,546,080</b>	<b>877,401</b>	<b>94,546,080</b>	<b>877,401</b>
Under \$10,000.....	1,293,718	125	1,270,644	130	8,051,622	2,329	7,998,860	2,441
\$10,000 under \$20,000.....	5,444,766	2,653	5,444,347	2,646	14,769,542	14,741	14,669,248	14,689
\$20,000 under \$30,000.....	6,240,403	5,451	6,278,350	5,443	15,175,214	30,392	15,595,394	31,744
\$30,000 under \$40,000.....	4,675,837	4,126	4,731,168	4,185	12,802,035	39,696	13,089,615	42,184
\$40,000 under \$50,000.....	4,040,831	3,852	4,040,952	3,827	9,741,580	43,464	9,749,361	44,998
\$50,000 under \$60,000.....	3,482,832	3,545	3,410,796	3,499	7,978,204	46,409	7,836,659	47,072
\$60,000 under \$70,000.....	2,937,728	3,249	2,836,114	3,060	6,238,023	45,308	5,832,079	43,222
\$70,000 under \$80,000.....	2,166,712	2,319	2,171,502	2,356	4,498,752	41,770	4,319,543	40,389
\$80,000 under \$90,000.....	1,745,261	1,777	1,661,659	1,657	3,379,724	38,737	3,118,487	35,567
\$90,000 under \$100,000.....	1,243,062	1,177	1,227,770	1,143	2,384,981	32,800	2,320,252	31,014
\$100,000 under \$125,000.....	1,572,623	1,376	1,570,735	1,338	3,647,976	64,034	3,580,289	61,556
\$125,000 under \$150,000.....	484,205	310	533,180	342	1,777,752	42,634	1,836,509	41,617
\$150,000 under \$175,000.....	251,449	190	297,370	270	1,025,702	31,466	1,109,639	31,457
\$175,000 under \$200,000.....	169,338	147	173,092	184	646,638	24,091	685,923	23,560
\$200,000 under \$300,000.....	358,099	692	392,650	633	1,214,217	65,368	1,340,824	64,503
\$300,000 under \$400,000.....	158,900	483	182,989	574	438,466	38,342	537,505	39,828
\$400,000 under \$500,000.....	88,065	265	100,230	354	222,699	26,564	268,959	28,015
\$500,000 under \$1,000,000.....	156,078	975	176,433	971	348,002	66,965	421,613	68,634
\$1,000,000 or more.....	111,688	3,179	121,613	3,279	204,951	182,293	235,321	184,913

<sup>1</sup> Individual Retirement Arrangements are included in the calculation of "Pensions and annuities."

NOTE: Detail may not add to totals because of rounding.

## Comparison of AGI with 1979 Income Concept

The Tax Reform Act of 1986 (TRA 86) made extensive changes to the calculation of AGI beginning with 1987. These changes made necessary a revision of the calculation of the 1979 Income Concept, in order to make tax years beginning with 1987 comparable to the base years, 1979 through 1986. The law changes limited the

deduction of passive losses and eliminated unreimbursed employee business expenses and moving expenses as "adjustments" (moving expenses changed back for 1994) in figuring AGI beginning with Tax Year 1987. Since passive losses had been fully deductible for both income measures prior to 1987, the disallowed passive losses had to be deducted in the 1979 Income Concept calculation for tax years after 1986.

Some income items, such as capital gains, that had been partially excluded from AGI under prior law were fully included. The new law also eliminated or restricted some deductions. Therefore, if AGI is used to measure income, comparisons between 1986 income and tax data with that for years after 1986 are misleading. A more accurate comparison can be made using the 1979 Income Concept because it measures income in the same way for all years. Table B shows total income and selected tax items for 1999 using AGI and the 1979 Income Concept, classified by size of 1999 AGI.

Before TRA 86 became effective, a comparison of income measured by AGI with that measured by the 1979 Income Concept showed significant differences at income levels of \$200,000 or more. But, with the elimination of preferential treatment of various income items by TRA 86, such as the exclusion of a portion of capital gains, much of the difference disappeared. Under tax law prior to 1987, the capital gains exclusion accounted for the largest difference at the higher income levels between the two income measures. For 1999, 1979 Concept income was 2.9 percent higher than income as calculated using AGI. This difference was primarily attributed to the inclusion of more than \$242.1 billion in nontaxable pensions and annuities (including IRA distributions) in the 1979 Income Concept.

Income for all returns, using the 1979 Income Concept, increased 8.2 percent for 1999; income for the group \$200,000 and above increased 18.6 percent, after increasing 23.9 percent for 1998. Total income tax for all returns increased 11.3 percent; and total income tax reported for the \$200,000 and above income group increased 19.2 percent for 1999, following an increase of 17.0 percent for 1998.

The average tax rates (income tax as a percentage of total income) for each income class and both income concepts for years 1986 through 1999 are shown in Figure 4.

For the population as a whole, average tax rates for 1999 (based on the 1979 Income Concept) are higher than those for 1986 (before tax reform).

However, between these 2 years, the average tax rates declined in all income categories below \$500,000. The remaining two income categories show the following increases in average tax rates between 1986 and 1999: returns with income between \$500,000 and \$1,000,000 increased 0.3 percentage points; and returns with income exceeding \$1,000,000 increased 4.7 percentage points. Although the average tax rate for 1999 was calculated using a lower maximum marginal tax rate of 39.6 percent for 1999 compared to 50 percent for 1986, it was calculated on income which included all capital gains (long-term gains could be partially excluded from income for 1986). Also, certain deductions from income that were allowed for 1986 were limited or eliminated beginning with 1987.

SOURCE: IRS, Individual Income Tax Returns-1999, Publication 1304, Revised 10-2001.



**Figure 4--Total Income Tax as a Percentage of Adjusted Gross Income and the 1979 Income Concept, 1986-1999**

Size of 1999 AGI	Total income tax as a percentage of adjusted gross income													
	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
<b>All returns, total.....</b>	<b>14.8</b>	<b>13.3</b>	<b>13.4</b>	<b>13.3</b>	<b>13.1</b>	<b>12.9</b>	<b>13.1</b>	<b>13.5</b>	<b>13.7</b>	<b>14.0</b>	<b>14.5</b>	<b>14.7</b>	<b>14.6</b>	<b>15.0</b>
Under \$10,000.....	4.3	4.0	4.0	3.8	3.7	3.5	3.2	3.0	3.0	3.0	3.1	3.2	2.9	3.0
\$10,000 under \$20,000.....	7.8	6.8	6.5	6.4	6.1	5.5	5.1	4.9	4.8	4.7	4.6	4.3	4.3	4.1
\$20,000 under \$30,000.....	10.6	9.4	9.3	9.3	9.1	8.7	8.4	8.2	8.1	7.9	7.7	7.6	6.8	6.7
\$30,000 under \$40,000.....	12.2	10.6	10.9	10.9	10.6	10.5	10.2	10.1	10.0	9.8	9.7	9.6	8.8	8.6
\$40,000 under \$50,000.....	13.8	11.8	11.6	11.5	11.4	11.0	10.8	10.7	10.8	10.7	10.8	10.7	10.0	9.8
\$50,000 under \$60,000.....	15.5	13.5	13.2	12.9	12.4	12.1	11.6	11.5	11.4	11.4	11.3	11.3	10.7	10.6
\$60,000 under \$70,000.....	16.9	15.1	14.5	14.2	13.8	13.2	12.9	12.7	12.6	12.5	12.3	12.1	11.4	11.2
\$70,000 under \$80,000.....	18.7	16.5	15.6	15.3	14.9	14.4	14.0	13.9	13.8	13.6	13.6	13.4	12.6	12.4
\$80,000 under \$90,000.....	19.9	17.8	16.6	16.2	15.8	15.4	15.0	15.1	14.9	14.6	14.6	14.4	13.5	13.5
\$90,000 under \$100,000.....	20.8	18.8	17.4	17.3	16.6	16.0	15.9	15.7	15.9	15.8	15.4	15.2	14.8	14.5
\$100,000 under \$125,000.....	23.1	20.1	18.8	18.4	17.5	17.3	16.9	17.0	17.0	16.9	16.7	16.5	16.0	15.8
\$125,000 under \$150,000.....	25.2	21.8	20.3	19.8	19.2	18.6	18.7	18.6	18.6	18.3	18.4	17.7	17.7	17.6
\$150,000 under \$175,000.....	28.0	23.0	21.6	21.1	20.4	19.8	19.6	19.7	19.9	19.9	19.8	19.3	18.8	19.0
\$175,000 under \$200,000.....	29.3	23.9	22.5	21.8	21.1	21.0	20.7	21.2	21.4	20.9	20.9	20.5	20.0	20.0
\$200,000 under \$300,000.....	31.1	25.8	23.7	22.8	22.6	22.7	22.9	23.8	23.9	23.8	23.4	22.9	22.4	22.4
\$300,000 under \$400,000.....	33.7	27.0	24.0	23.6	23.7	24.3	24.4	26.9	26.9	26.8	26.6	26.1	25.4	25.4
\$400,000 under \$500,000.....	36.2	28.2	24.1	23.9	23.6	24.9	25.3	28.4	28.6	28.7	28.2	27.4	26.9	26.7
\$500,000 under \$1,000,000.....	38.4	29.0	24.6	24.0	24.0	25.7	26.0	30.0	30.2	30.2	30.1	29.0	28.2	28.4
\$1,000,000 or more.....	40.2	28.6	25.0	24.2	24.1	26.2	26.8	31.2	31.1	31.4	30.8	28.8	27.5	27.9

  

Size of 1999 AGI	Total income tax as a percentage of 1979 Income Concept													
	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
	(15)	(16)	(17)	(18)	(19)	(20)	(21)	(22)	(23)	(24)	(25)	(26)	(27)	(28)
<b>All returns, total.....</b>	<b>13.3</b>	<b>13.1</b>	<b>13.3</b>	<b>13.2</b>	<b>13.0</b>	<b>12.7</b>	<b>12.8</b>	<b>13.3</b>	<b>13.5</b>	<b>13.8</b>	<b>14.3</b>	<b>14.5</b>	<b>14.2</b>	<b>14.6</b>
Under \$10,000.....	4.9	4.2	4.4	4.3	4.3	4.0	3.5	3.2	3.2	3.1	3.2	3.4	3.1	3.2
\$10,000 under \$20,000.....	7.6	6.7	6.5	6.4	6.1	5.5	5.1	4.8	4.8	4.7	4.6	4.4	4.2	4.1
\$20,000 under \$30,000.....	10.0	9.3	9.3	9.3	9.1	8.7	8.3	8.2	8.1	7.9	7.8	7.6	6.9	6.8
\$30,000 under \$40,000.....	11.6	10.7	10.7	10.9	10.7	10.5	10.2	10.2	10.1	10.1	10.0	9.8	9.1	8.9
\$40,000 under \$50,000.....	12.6	11.7	11.7	11.5	11.5	11.1	10.9	10.8	11.0	11.0	11.1	11.0	10.3	10.1
\$50,000 under \$60,000.....	13.8	13.4	13.2	12.9	12.5	12.0	11.6	11.6	11.6	11.6	11.6	11.5	11.0	10.9
\$60,000 under \$70,000.....	14.9	15.0	14.5	14.2	13.8	13.2	12.9	12.7	12.7	12.5	12.5	12.4	11.4	11.4
\$70,000 under \$80,000.....	15.8	16.2	15.4	15.2	14.6	14.2	13.7	13.7	13.6	13.6	13.5	13.3	12.6	12.4
\$80,000 under \$90,000.....	16.7	17.5	16.1	16.2	15.5	15.1	14.6	14.7	14.6	14.4	14.5	14.2	13.3	13.4
\$90,000 under \$100,000.....	16.8	18.1	17.1	16.8	16.1	15.5	15.2	15.3	15.4	15.5	15.2	15.2	14.5	14.0
\$100,000 under \$125,000.....	18.3	19.3	18.0	17.7	16.9	16.6	16.2	16.3	16.3	16.2	16.1	16.0	15.2	15.4
\$125,000 under \$150,000.....	19.0	20.6	19.6	18.8	18.0	17.3	17.2	17.7	17.4	17.4	17.3	16.7	16.6	16.6
\$150,000 under \$175,000.....	19.3	21.2	20.6	20.0	19.1	18.3	17.8	18.0	18.5	18.1	18.4	18.2	17.1	17.5
\$175,000 under \$200,000.....	20.3	22.5	21.6	20.7	20.0	18.6	19.0	19.1	19.4	19.2	18.9	18.8	18.1	18.4
\$200,000 under \$300,000.....	22.6	23.8	22.3	21.5	21.4	20.5	20.2	21.4	21.5	21.5	21.3	20.4	19.4	19.9
\$300,000 under \$400,000.....	22.6	24.5	22.6	21.9	21.5	21.6	21.6	23.5	23.7	23.7	23.1	24.0	21.5	21.3
\$400,000 under \$500,000.....	23.4	26.5	23.2	22.7	22.3	23.0	21.4	25.4	24.8	25.1	25.0	24.3	22.6	23.2
\$500,000 under \$1,000,000.....	23.7	26.7	23.5	22.0	21.7	23.5	22.6	26.3	26.1	26.7	27.1	26.1	24.3	24.0
\$1,000,000 or more.....	21.4	26.8	24.5	23.2	23.2	25.2	26.1	29.5	30.1	30.4	29.8	27.5	26.2	26.1

## Section 2

## Description of the Sample

This section describes the sample design and selection, the method of estimation, the sampling variability of the estimates, and the methodology of computing confidence intervals.

### Domain of Study

The statistics in this report are estimates from a probability sample of unaudited Individual Income Tax Returns, Forms 1040, 1040A, 1040EZ, and 1040PC (including electronic returns) filed by U.S. citizens and residents during Calendar Year 2000.

All returns processed during 2000 were subjected to sampling except tentative and amended returns. Tentative returns were not subjected to sampling because the revised returns may have been sampled later, while amended returns were excluded because the original returns had already been subjected to sampling.

A small percentage of returns were not identified as tentative or amended until after sampling. These returns, along with those that contained no income information, were excluded in calculating estimates. This resulted in a small difference between the population total (127,321,626 returns) reported in Table C and the estimated total of all returns (127,075,145) reported in other tables.

The estimates in this report are intended to represent all returns filed for Tax Year 1999. While about 98 percent of the returns processed during Calendar Year

2000 were for Tax Year 1999, the remaining returns were mostly for prior years, and a few for non-calendar years ending during 1999 and 2000. Returns for prior years were used in place of 1999 returns expected to be received and processed after December 31, 2000.

This was done based on the assumption that the characteristics of returns due, but not yet processed, can best be represented by the returns for previous income years that were processed in 2000.

### Sample Design and Selection

The sample design is a stratified probability sample, in which the population of tax returns is classified into subpopulations, called strata, and a sample is randomly selected independently from each stratum. Strata are defined by:

1. Nontaxable with adjusted gross income or expanded income of \$200,000 or more and no alternative minimum tax.
2. High combined business and farm total receipts of \$50,000,000 or more.
3. Presence or absence of special Forms or Schedules (Form 2555, Form 1116, Form 1040 Schedule C, and Form 1040 Schedule F).

*Bonnye Walker and Valerie Puckett designed the sample and prepared the text and tables in this section under the direction of Yahia Ahmed, Chief, Mathematical Statistics Section, Statistical Computing Branch.*

4. Indexed positive or negative income. Sixty variables are used to derive positive and negative incomes. These positive and negative income classes are deflated using the Chain-Type Price Index for the Gross Domestic Product to represent a base year of 1991. (See footnote 1 for details.)
5. Potential usefulness of the return for tax policy modeling. Thirty-two variables are used to determine how useful the return is for tax modeling purposes.

Table C shows the population and sample count for each stratum after collapsing some strata with the same sampling rates. (See references 1 and 2 for details.) The sampling rates range from 0.05 percent to 100 percent.

Tax data processed to the IRS Individual Master File at the Martinsburg Computing Center during Calendar Year 2000 were used to assign each taxpayer's record to the appropriate stratum and to determine whether or not the record should be included in the sample. Records are selected for the sample either if they possess certain combinations of the four ending digits of the social security number, or if their ending five digits of an eleven-digit number generated by a mathematical transformation of the SSN is less than or equal to the stratum sampling rate times 100,000. (See reference 3 for details.)

## Data Capture and Cleaning

Data capture for the SOI sample begins with the designation of a sample of administrative records. While the sample was being selected, the process was continually monitored for sample selection and data collection errors. In addition, a small subsample of returns was selected and independently reviewed, analyzed, and processed for a quality evaluation.

The administrative data and controlling information for each record designated for this sample was loaded onto an online database at the Cincinnati Service Center. Computer data for the selected administrative records were then used to identify inconsistencies, questionable values, and missing values as well as any additional variables that an editor needed to extract for each record. The editors use a hardcopy of the

taxpayer's return to enter the required information onto the online system.

After the completion of service center review, data were further validated, tested, and balanced at the Detroit Computing Center. Adjustments and imputations for selected fields based on prior year data and other available information were used to make each record internally consistent. Finally, prior to publication, all statistics and tables were reviewed for accuracy and reasonableness in light of provisions of the tax law, taxpayer reporting variations and limitations, economic conditions, and comparability with other statistical series.

Some returns designated for the sample were not available for SOI processing because other areas of IRS needed the return at the same time. For Tax Year 1999, 0.11 percent of the sample returns were unavailable.

## Method of Estimation

Weights were obtained by dividing the population count of returns in a stratum by the number of sample returns for that stratum. The weights were adjusted to correct for misclassified returns. These weights were applied to the sample data to produce all of the estimates in this report.

## Sampling Variability and Confidence Intervals

The sample used in this study is one of a large number of samples that could have been selected using the same sample design. The estimates calculated from these different samples would vary. The standard error (SE) of an estimate is a measure of the variation among the estimates from the possible samples and, thus, is a measure of the precision with which an estimate from a particular sample approximates the average of the estimates calculated from all possible samples.

The standard error may be expressed as a percentage of the value being estimated. This ratio is called the coefficient of variation (CV). Table 1.4 CV contains estimated CV's for the estimates included in Table 1.4 of this report.

The sample estimate and an estimate of its standard error permit the construction of interval estimates with

prescribed confidence that the interval includes the population value. If all possible samples were selected under essentially the same conditions and an estimate and its estimated standard error were calculated from each sample, then:

1. About 68 percent of the intervals from one standard error below the estimate to one standard error above the estimate would include the population value. This is a 68 percent confidence interval.
2. About 95 percent of the intervals from two standard errors below the estimate to two standard errors above the estimate would include the population value. This is a 95 percent confidence interval.

For example, from Table 1.4, the amount estimate for State Income Tax Refunds, X, is \$17.976 billion, and its related coefficient of variation, CV(X), is 0.97 percent. The standard error of the estimate, SE(X), needed to construct the confidence interval estimate, is:

$$\begin{aligned} SE(X) &= X \bullet CV(X) \\ &= (\$17.976 \times 10^9) \bullet (0.0097) \\ &= \$0.174 \text{ billion} \end{aligned}$$

The p percent confidence interval is calculated using the formula:

$$X \pm z \bullet SE(X)$$

where z takes the value 1, 2, or 3 when p is 68, 95, or 99, respectively. Based on these data, the 68 percent confidence interval is from \$17.802 billion to \$18.15 billion, and the 95 percent confidence interval is from \$17.628 billion to \$18.324 billion.

## Table Presentation

Whenever a weighted frequency is less than 3, the estimate and its corresponding amount are combined or deleted in order to avoid disclosure of information for specific taxpayers. (The combined or deleted data, if any, are included in the corresponding column totals.)

These combinations and deletions are indicated by a double asterisk (\*\*). Estimates based on less than 10 sampled returns are considered to be unreliable. These

estimates are noted by a single asterisk (\*) to the left of the data unless all of the sampled returns are selected with certainty (at the 100 percent rate).

In the tables, a dash (- or --) in place of a frequency or an amount indicates that either no returns in the population had the characteristic or the characteristic was so rare that it did not appear on any of the sampled returns.

## Footnote

- [1] Indexing of positive and negative income is done by dividing each by the ratio of the Chain-Type Price Index for the Gross Domestic Product for the fourth quarter of 1998 to the fourth quarter of the base year of 1991. The indices can be found in U. S. Department of Commerce, Bureau of Economic Analysis, *Survey of Current Business* (January 1999) Vol. 79, number 1.

## References

- [1] Hostetter, S., Czajka, J. L., Schirm, A. L., and O'Connor, K. (1990), "Choosing the Appropriate Income Classifier for Economic Tax Modeling," in *Proceedings of the Section on Survey Research Methods*, American Statistical Association, 419-424.
- [2] Schirm, A. L., and Czajka, J. L. (1991), "Alternative Designs for a Cross-Sectional Sample of Individual Tax Returns: the Old and the New," *Proceedings of the Section on Survey Research Methods*, American Statistical Association, 163-168.
- [3] Harte, J.M. (1986), "Some Mathematical and Statistical Aspects of the transformed Taxpayer Identification Number: A Sample Selection Tool Used at IRS," *Proceedings of the Section on Survey Research Methods*, American Statistical Association, 603-608.

SOURCE: IRS, Individual Income Tax Returns-1999, Publication 1304, Revised 10-2001.

See next page for table

**Table C.—Number of Individual Income Tax Returns in the Population and Sample by Sampling Strata for 1999**

Description of the sample strata										Number of returns	
										Population counts	Sample counts
Grand total										127,321,626	176,966 <sup>1</sup>
Form 1040 returns only with adjusted gross income or expanded income of \$200,000 and over, with no income tax after credits and no additional tax for tax preferences, total										3,238	3,238 <sup>2</sup>
Form 1040 returns only with combined Schedule C (business or profession) total receipts of \$50,000,000 and over, total										160	160
Other Returns, total										127,318,228	173,568
Description of the sample strata	Degree of interest <sup>3</sup>	Number of Returns by type of form attached									
		Form 1040, with Form 1116 or Form 2555		Form 1040, with Schedule C but without Form 1116 or Form 2555		Form 1040, with Schedule F but without Schedule C, Form 1116 or Form 2555		All other forms			
		Population counts	Sample counts	Population counts	Sample counts	Population counts	Sample counts	Population counts	Sample counts		
		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	
Total		2,698,596	36,528	17,272,967	36,746	1,521,415	4,470	105,825,250	95,824		
Indexed Negative Income <sup>4</sup>											
\$10,000,000 or more	All	101	101	504	504	65	65	586	586	1,256	1,256
\$5,000,000 under \$10,000,000	All	86	86	609	609	121	121	750	750	1,566	1,566
\$2,000,000 under \$5,000,000	All	346	103	2,349	741	533	190	2,673	862	5,901	1,896
\$1,000,000 under \$2,000,000	All	703	100	5,188	818	1,312	214	5,192	847	12,395	1,979
\$500,000 under \$1,000,000	All	1,472	54	14,089	498	3,990	123	12,007	401	31,558	1,076
\$250,000 under \$500,000	All	3,007	35	34,810	310	9,768	78	27,489	258	75,074	681
\$120,000 under \$250,000	All	5,467	34	75,090	352	17,257	89	58,046	267	155,860	742
\$60,000 under \$120,000	All	**	**	117,062	292	17,810	36	87,367	224	222,239	552
Under \$60,000	All	**	**	321,426	425	33,741	52	327,804	446	682,971	923
Indexed Positive Income <sup>4</sup>											
Under \$30,000	1							27,809,524	13,804	27,809,524	13,804
Under \$30,000	2	143,649	65	1,874,895	973	108,513	62	29,242,683	14,749	31,369,740	15,849
Under \$30,000	3-4	199,772	223	3,464,052	3,586	172,357	188	6,205,425	6,492	10,041,606	10,489
\$30,000 under \$60,000	1-2	198,137	101	1,686,282	787	184,402	83	20,613,240	10,179	22,682,061	11,150
\$30,000 under \$60,000	3-4	314,375	373	3,351,363	3,562	281,068	299	5,618,229	6,224	9,565,035	10,458
\$60,000 under \$120,000	1-3	408,896	191	1,874,804	959	232,413	120	10,025,047	4,905	12,541,160	6,175
\$60,000 under \$120,000	4	350,365	355	2,274,376	2,361	190,886	161	2,374,629	2,408	5,190,256	5,285
\$120,000 under \$250,000	1-3	243,101	367	466,388	680	106,656	139	1,584,226	2,346	2,400,371	3,532
\$120,000 under \$250,000	4	328,531	958	1,085,930	3,115	76,074	198	1,017,036	2,910	2,507,571	7,181
\$250,000 under \$500,000	All	277,335	1,849	454,376	3,100	61,525	371	567,361	3,727	1,360,597	9,047
\$500,000 under \$1,000,000	All	128,630	3,105	125,068	2,979	16,675	404	166,746	4,029	437,119	10,517
\$1,000,000 under \$2,000,000	All	54,290	6,581	31,129	3,767	4,280	542	52,437	6,447	142,136	17,337
\$2,000,000 under \$5,000,000	All	27,424	8,938	10,170	3,321	1,532	498	20,333	6,545	59,459	19,302
\$5,000,000 under \$10,000,000	All	7,813	7,813	2,015	2,015	302	302	4,273	4,273	14,403	14,403
\$10,000,000 or more	All	5,096	5,096	992	992	135	135	2,147	2,145	8,370	8,368

<sup>1</sup> This population includes an estimated 246,481 returns that were excluded from other tables in this report because they contained no income information or represented amended or tentative returns identified after sampling.

<sup>2</sup> This population includes 39 Form 1040 returns that were misclassified because of bad data collected during revenue processing.

<sup>3</sup> Each population member is assigned a degree of interest based on how useful it is for tax modeling purposes. Degree of interest ranges from one (1) to four (4), with a one being assigned to returns that are the least interesting, and a four being assigned to those that are the most interesting. 'All' refers to income classes for which returns with all four degrees of interest are assigned.

<sup>4</sup> Positive and Negative Income classes are divided by a Chain-Type Price Index for the Gross Domestic Product of 1.1480 to represent a base year of 1991.

\*\* Sampling Strata Collapsed.



## Section 4

## Explanation of Terms

The Explanation of Terms section is designed to clarify the statistical content of this report and should not be construed as an interpretation of the Internal Revenue Code, related regulations, procedures, or policies.

The definitions and explanation in this section relate to column or row titles used in one or more tables in this report. They provide background or limitations to such titles, and are necessary to interpret the statistical tables to which they relate. For each of these titles, the line number of the tax form on which it is reported appears after the title. Definitions marked with the symbol  $\Delta$  have been revised for 1999 to reflect changes in the law.

### **Additional Child Tax Credit D**

(line 60, Form 1040)

See "Child Tax Credit."

### **Additional Standard Deduction**

(included in line 36, Form 1040)

See "Standard Deduction."

### **Additional Taxes**

(line 40, Form 1040)

Taxes calculated on Form 4972, *Tax on Lump-Sum Distributions* were reported here.

### **Adjusted Gross Income Less Deficit**

(line 33, Form 1040)

Income that had to be reported for the calculation of total income (line 22, Form 1040) and of adjusted gross income included the following:

- Compensation for services, including wages, salaries, fees, commissions, tips, taxable fringe benefits, and similar items;
- Taxable interest received;
- Dividends and capital gain distributions;
- Taxable refunds of state and local income taxes;
- Alimony and separate maintenance payments;
- Net income derived from a business, profession, or farm;
- Net gain from the sale of capital assets;



- Net gain from the sale of business property;
- Taxable amounts of annuities, pensions, and individual retirement arrangement (IRA) distributions;
- Rents and royalties;
- Distributive share of partnership or S corporation net income;
- Net income from an estate or trust;
- Unemployment compensation;
- Taxable amounts of social security and railroad retirement (Tier 1) payments;
- Prizes, awards, and gambling winnings;
- Amounts received that were claimed as a deduction or credit in a prior year; and
- Bartering income.

Some reported income was fully or partially excluded from total income for 1999. The following is a list of such items:

- The cost basis of pension, annuity, or IRA payments or distributions;
- Tax-exempt interest;
- Limited exclusion of social security benefits and railroad retirement benefits (only reported if there was also a taxable amount);
- Limited exclusion of qualified foreign earned income;
- Exclusion of part or all of the gain from sale of principal residence up to \$250,000 (\$500,000 on joint returns); and

From total income, the following statutory adjustments (lines 23 through 31, Form 1040) were subtracted to arrive at adjusted gross income (line 33, Form 1040):

- Contributions to self-employed retirement plans (Keogh or simplified employee pension) and certain contributions to IRAs;
- Certain student loan interest;
- Medical savings accounts;
- Moving expenses;
- One-half of self-employment tax;
- Self-employed health insurance deduction;

- Forfeited interest and penalties incurred by persons who made premature withdrawals of funds from time savings accounts;
- Alimony payments;
- Forestation or reforestation expenses;
- Foreign housing exclusion;
- Repayments of supplemental unemployment compensation;
- Certain expenses of qualified performing artists;
- Amount of jury duty pay reported on line 21, Form 1040, that was repaid to employers;
- Deduction for clean-fuel vehicles; and
- Employee business expenses of fee-basis state or local government officials

A deficit occurred if the allowable exclusions and deductions exceeded gross income, (i.e., the amount on line 32 was greater than the amount on line 22).

## Adjustments

See "Statutory Adjustments."

## Adoption Credit

(line 45, Form 1040)

This nonrefundable credit (reported on Form 8839) was available to taxpayers who paid qualified adoption expenses in 1999, or for qualified expenses paid in 1998 in connection with adoption of domestic children, for an adoption that was final in or before 1999. The credit could have been as much as \$5,000 for each child (\$6,000 for a child with special needs).

## Advance Earned Income Credit Payments

(line 54, Form 1040)

Taxpayers who believed they would be eligible for the earned income credit at the end of the year could have received part of the credit from their employers as an additional payment in their paychecks during the year. Those payments were then shown on the tax return where they either

increased the balance due amount or reduced the amount of the overpayment.

## **Alimony Paid**

(line 31a, Form 1040)

Payments made as alimony or separate maintenance counted as a deduction (an adjustment to total income) for the person paying them.

## **Alimony Received**

(line 11, Form 1040)

Payments received as alimony or separate maintenance were income to the person receiving them.

## **All Other Taxes D**

(lines 50, 52, 53, 55, 56 Form 1040)

For the statistics in this report, this amount represents the sum of the self-employment tax; tax from the recapture of the investment credit, the low income housing credit, qualified electric vehicle credit, and the Indian employment credit; social security and Medicare taxes on tip income, penalty tax on qualified retirement plans, and tax on medical savings accounts; household employment taxes, recapture of federal mortgage subsidy, and other unspecified taxes which included uncollected FICA (or social security) tax on tips; excess golden parachute payments; and section 72 penalty taxes. New for 1999, the statistics included tax from recapture of education credits. This differs slightly from the "other taxes" portion of the Form 1040 itself, which included the taxes listed above plus the alternative minimum tax and the advance earned income credit payments, received. Alternative minimum tax is tabulated in this report as a part of "total income tax" and is one of the criteria for determining the taxable or nontaxable classification of the return. Also, included in "total income tax" is tax from Form 4970, *Tax on Accumulation Distribution of Trusts*. (See also "Taxable and Nontaxable Returns" and "Total Income Tax.")

## **Alternative Minimum Tax**

(line 51, Form 1040)

The alternative minimum tax (AMT) was levied on benefits received in the form of deductions and exclusions which reduced an individual's regular effective tax rate. These benefits, known as "alternative minimum tax preferences and adjustments," resulted from the treatment that the tax law gave to particular income and expense items. Alternative minimum taxable income (line 21, Form 6251) was defined as taxable income for ordinary income tax purposes adjusted for net operating losses from other tax years plus the amount of adjustments and preferences.

Alternative minimum taxable income (AMTI) was then reduced by an exemption amount determined by filing status and AMTI. If the return was filed jointly by a married couple or a surviving spouse, the maximum amount of the exemption was \$45,000. The maximum amount for a single or head of household taxpayer was \$33,750, and for a married couple filing separately, \$22,500. The AMT exclusion was phased out if AMTI exceeded certain levels. For single taxpayers, the phase-out began at \$112,500 and ended at \$247,500. For joint returns the range was \$150,000 to \$330,000, and for married couples filing separately, the range was \$75,000 to \$165,000.

If there was an amount remaining after subtracting the exemption, the first \$175,000 (\$87,500 or less if married filing separately) was taxed at a 26 percent rate; any excess was taxed at a 28 percent rate, except that capital gains are taxed at the same rates under the AMT as under the regular income tax. This amount was then reduced by the recalculated alternative minimum tax foreign tax credit, and regular income tax before credits (line 40, Form 1040 minus the regular foreign tax credit, line 46, Form 1040) to arrive at the alternative minimum tax.

## Basic Standard Deduction

(included in line 36, Form 1040)

See "Standard Deduction."

## Business or Profession Net Income or Loss

(line 12, Form 1040)

This source of income or loss was reported by individuals who were sole proprietors of a nonfarm business, including self-employed members of a profession.

If two or more sole proprietorships were operated by the same taxpayer, the single amount of net income or loss included in the adjusted gross income represented the combined net income and loss from all sole proprietorships. The proprietor was required to exclude investment income from business profits and include it, instead, with the various types of investment income for which separate provisions were made on the individual income tax return.

Total expenses (line 28, Schedule C) were deducted from gross income (line 7, Schedule C) to arrive at a tentative profit or loss. Expenses for business use of the taxpayer's home (line 30, Schedule C) were then deducted to arrive at net income or loss. Compensation of the proprietor was taxable income and, therefore, not allowed as a business deduction in computing net income. The deduction of net operating losses from previous years was not considered a business expense, but was offset against "Other Income" (line 21, Form 1040).

Information on sole proprietorships, business receipts, and expenditures can be found in the 2001 summer issue of the *Statistics of Income Bulletin*.

## Capital Assets

See "Sales of Capital Assets, Net Gain or Loss."

## Capital Gain Distributions Reported on Form 1040 D

(included in line 13, Form 1040)

Taxpayers who had capital gains strictly from capital gain distributions could enter the amount directly on line 13, Form 1040.

## Capital Gain Distributions Reported on Schedule D

(line 13, Schedule D)

See "Sales of Capital Assets, Net Gain or Loss."

## Capital Gains and Losses

See "Sales of Capital Assets, Net Gain or Loss."

## Casualty or Theft Loss Deduction, Nonbusiness

(line 19, Schedule A)

Nonbusiness casualty and theft losses were deductible, as an itemized deduction, from adjusted gross income to the extent that nonreimbursable net loss for each such casualty or theft exceeded \$100, and the combined amount for all net losses during the year exceeded 10 percent of adjusted gross income. (See also "Total Itemized Deductions.")

## Child Care Credit

(line 41, Form 1040)

This credit could be claimed by taxpayers who, while employed or looking for work, incurred expenses for the care of dependent children under age 13, or disabled dependents of any age. Qualified expenses included those for services performed within the home by non-dependent baby-sitters, maids, or cooks. Expenditures paid for the care of children under the age 13 or any other qualified individuals for out-of-home, non-institutional care qualified for the child care credit. If the taxpayer omitted or used an invalid Social Security number or employer identification number (EIN) for the child care provider, the IRS had the authority to use mathematical error procedures to change the child care credit.

The maximum amount of care-related expenses on which the credit could be based with one qualifying child or dependent, was the smaller of

earned income or \$2,400; with more than one dependent the credit was based on the smaller of earned income or \$4,800. For returns of married couples filing jointly, earned income refers to the earnings of the spouse with the lesser earned income. Exceptions were allowed if the spouse was disabled or a full-time student.

The credit was equal to 30 percent of eligible expenses for taxpayers with adjusted gross income of \$10,000 or less. The credit was reduced by one percentage point for each \$2,000 or fraction thereof of adjusted gross income in excess of \$10,000 up to \$28,000. The credit remained at 20 percent of expenses for individuals with adjusted gross income over \$28,000.

The amount of the credit which could be claimed was limited to income tax before credits, and any excess was not refundable.

## Child Tax Credit D

(line 43, Form 1040)

A credit was allowed for each qualifying child under 17. To be a qualifying child, the person had to be a son, daughter, stepson, stepdaughter, grandchild, or qualifying foster child for whom the taxpayer claims a dependent exemption. For families with no more than two children the credit was nonrefundable; for families with more than two children the credit called the additional child tax credit, could have been refundable. The credit was phased out by \$50 for each \$1,000, or fraction thereof, that AGI exceeded: \$110,000 for taxpayers filing jointly; \$55,000 for married filing separately; and \$75,000 for single filers. The taxpayer could claim up to \$500 for each child meeting the AGI phase out guidelines.

An additional child tax credit for taxpayers with three or more qualifying children could have been refundable. The taxpayer had to meet the general requirements and some additional requirements. The additional child tax credit was not included in credits but instead as a payment (line 60, Form 1040).

## Contributions Deduction

(lines 15-18, Schedule A)

Taxpayers could deduct contributions to certain organizations that were religious, charitable, educational, scientific, or literary in purpose. Contributions could be in cash, property, or out-of-pocket expenses that a taxpayer paid in doing volunteer work for a qualified organization. Contributions were allowed as an itemized deduction on Schedule A. Cash contributions were generally limited to one-half of the taxpayer's AGI, while contributions of capital gain property were generally limited to 30 percent (20 percent in certain cases) of the taxpayers AGI. Contributions which could not be deducted due to the AGI limitation could be carried over to future years (and brought over from previous years). For all charitable contributions of \$250 or more, a written acknowledgment from the qualified recipient organization was required.

## Credit for Federal Tax on Gasoline and Special Fuels

(line 63b, Form 1040)

This credit (claimed on Form 4136) was allowed for federal excise taxes paid on gasoline and special fuels, such as gasohol and diesel fuel, provided the fuel was used for certain purposes (such as farm or non-highway use in a trade or business), bought at a price that included the tax, and a refund of the tax was not requested or received. The credit could reduce unpaid total tax liability or could be refunded. A one-time refundable credit was allowed to the original purchaser of a new, qualified diesel-powered highway vehicle. The credit was \$102 for a car and \$198 for a light truck or van.

## Credit for the Elderly or Disabled

(line 42, Form 1040)

A credit (claimed on Schedule R) for the elderly or permanently and totally disabled was available to taxpayers age 65 or older (within certain income limitations), and to those taxpayers under age 65 who had retired with a permanent and total disability and who had received taxable income from a public

or private employer because of that disability. The income to which the credit could be applied was reduced by nontaxable amounts of social security and railroad retirement benefits, veterans' pensions, and any other pension, annuity, or disability benefits that were excluded from income under any other provisions of the law.

An individual was considered permanently and totally disabled when he or she could not engage in any substantial gainful activity because of a physical or mental condition which had lasted, or was expected to last, at least twelve months, or was determined to be terminal.

The maximum credit available (\$1,125) was limited to total income tax with any excess not refundable, and was reduced if the taxpayer's income exceeded certain levels. Generally, if a taxpayer's income was high enough to require the reporting of social security benefits as taxable income, the taxpayer could not take the credit.

## **Credit from Regulated Investment Companies**

(line 63a, Form 1040)

Taxpayers were required to include in total income any amounts which were allocated to them as undistributed long-term capital gains of regulated investment companies. If investment companies paid tax on the capital gain, taxpayers were entitled to claim a refundable credit (claimed on Form 2439) for their proportionate share of the tax paid.

## **Credit to 2000 Estimated Tax**

(line 67, Form 1040)

This amount was the part of the overpayment of 1999 tax which taxpayers specifically requested to be credited to their estimated tax for 2000. (See also "Overpayment" and "Estimated Tax Payments.")

## **Deduction of Self-Employment Tax D**

(line 27, Form 1040)

If a taxpayer had income from self-employment and owed self-employment tax, one-half of that tax was deductible for income tax purposes. The amount was subtracted as an adjustment to total income in the calculation of AGI. (See also "Self-Employment Tax.")

## **Dividends**

(line 9, Form 1040)

Dividend income consisted of distributions of money, stock, or other property received by taxpayers from domestic and foreign corporations, either directly or passed through estates, trusts, partnerships, or regulated investment companies. Dividends also included distributions from money market mutual funds.

Dividends did not include nontaxable distributions of stock or stock rights, returns of capital, capital gains, or liquidation distributions. Taxpayers were also instructed to exclude amounts paid on deposits or withdrawable accounts in banks, mutual savings banks, cooperative banks, savings and loan associations, and credit unions, which were to be treated as interest income.

## **Earned Income Credit D**

(line 59a, Form 1040)

The earned income credit (EIC) for 1999 was a maximum of \$2,312 for one qualifying child, \$3,816 for two or more qualifying children, and \$347 for taxpayers with no qualifying children. To be eligible for the credit with children, the taxpayers must have had a qualifying child living with them for more than half the year and have had earned income and modified adjusted gross income each less than \$26,928 (\$30,580 if more than one qualifying child). To be eligible for the credit without children, the taxpayer must have had earned income and modified adjusted gross income less than \$10,200 and they (or their spouse) must have been at least 25 years of age and less than 65 years old. The credit was generally based on earned income, consisting of wages, salaries, and other employee compensation, plus net earnings from self-employment. For the

EIC, "modified AGI" excluded net capital losses, net losses from trusts and estates, and net losses from nonbusiness rents and royalties. Modified AGI included tax-exempt interest plus the nontaxable part of pension, annuity, or IRA distributions, except for any amount that is nontaxable due to trustee-to-trustee transfer or a rollover distribution. Also, 75 percent of business losses had to be added back to AGI to figure modified AGI. Taxpayers with investment income totaling more than \$2,350 were not eligible to receive the EIC. Investment income included interest income (taxable and tax-exempt), dividend income, and capital gain net income. As in previous years, taxpayers could not take the credit if their filing status was married filing separately, or if they claimed the foreign-earned income exclusion.

For this report, the earned income credit is divided into three parts: the amount used to offset income tax before credits (limited to the amount needed to reduce income tax after credits to zero); the amount used to offset all other taxes (limited to the amount needed to reduce total tax liability to zero); and the refundable portion. (See also "Advance Earned Income Credit Payments.")

### **Earned Income Credit, Refundable Portion**

See "Earned Income Credit."

### **Earned Income Credit Used to Offset Income Tax Before Credits**

See "Earned Income Credit."

### **Earned Income Credit Used to Offset Other Taxes**

See "Earned Income Credit."

### **Education Credits**

(line 44, Form 1040)

There were two credits available, the Hope Scholarship credit and Lifetime Learning credit. A taxpayer was only able to claim one of the credits per student, not both. If a student made a tax-free

withdrawal from an education IRA, neither credit could be claimed unless the taxpayer elected to be taxable on the education IRA withdrawal. The credits were phased out for AGI between \$40,000 and \$50,000 (\$80,000 and \$100,000 for married filing jointly).

The Hope Scholarship credit allowed a maximum credit per student of 100 percent for the first \$1,000 of qualified tuition and related expenses and 50 percent credit for the next \$1,000 of eligible expenses for enrollment in undergraduate programs. Also, the credit only applied to the first two years of post-secondary education.

The Lifetime Learning credit could have been used for tuition and expenses for undergraduate, graduate, and professional degree courses. The credit could have been used for an unlimited amount of time, as long as the taxpayer or dependents were enrolled in post-secondary education. The Lifetime Learning credit was a maximum of \$1,000 per return.

### **Education IRA**

Taxpayers could have made nondeductible contributions up to \$500 annually to an educational IRA for a child under age 18. The earnings and withdrawals were tax-free to the extent that withdrawals did not exceed the beneficiary's qualified higher education expenses for the year. The educational IRA contribution was phased out for modified AGI between \$95,000 and \$110,000 (between \$150,000 and \$160,000 for taxpayers married filing jointly) (See also "Individual Retirement Arrangement Deductible Payments.")

### **Employee Business Expense**

See "Unreimbursed Employee Business Expenses."

### **Estate or Trust Net Income or Loss**

(line 36, Schedule E, Part III)

This was the beneficiary's share of fiduciary income (with the exception of the items described

below, which were reported separately) from any estate or trust. Income from estates or trusts included amounts required to be distributed, amounts credited to beneficiaries' accounts from current-year fiduciary income (whether or not actually distributed), and any other amounts which were properly paid, credited, or required to be distributed for that year.

Taxpayers excluded their share of dividends and gains or losses from sales of capital assets or other property, from estate or trust income. Such income (which made up the largest portion of income from estates or trusts) was included on the tax return on the separate lines provided for these income types and was not separately identified for the statistics. A loss from an estate or trust was allocated to the beneficiary only upon settlement or termination of an estate or trust and was limited by the "passive loss" rules.

For the tables, if a return showed net income from one estate or trust, and a net loss from another, that return was tabulated in both the "total income" and "total loss" columns. The columns labeled "net income" and "net loss" represent the sum of all income and losses reported from all estates or trusts, i.e., the net amount computed on a return-by-return basis.

## Estimated Tax Payments

(line 58, Form 1040)

This figure represents the total of the tax payments made for 1999 using Form 1040-ES, and any overpayment from the taxpayer's 1998 return that was applied to the 1999 estimated tax. Generally, individuals were required to make estimated tax payments if they expected to owe, after subtracting withholding and credits, at least \$1,000 in tax for 1999, and they expected withholding and credits to be less than the smaller of: (a) 90 percent of the tax shown on Form 1040 for 1999, or (b) 100 percent of the tax shown on Form 1040 for 1998.

## Excess Social Security Taxes Withheld D

(line 62, Form 1040)

If a taxpayer earned more than \$72,600 (\$68,400 for 1998) in total wages from two or more employers in 1999, too much social security (FICA) or Railroad Retirement Tax Act (RRTA) tax may have been withheld from his or her wages. (There was no wage base limitation for Medicare tax; therefore, all covered wages were subject to Medicare tax.) Filers claimed credit for such overpayment on their income tax returns. The excess social security, or RRTA, taxes withheld could be taken as a credit toward payment of the taxpayer's income tax, or refunded. In the case of a joint return, the credit was computed separately for each taxpayer.

## Exemptions D

(lines 6, 38, Form 1040)

In the computation of taxable income, a \$2,750 deduction was allowed for each exemption claimed if adjusted gross income was less than \$94,975. In general, an exemption was allowed for each taxpayer and dependent shown on a return. If an individual who could be claimed as a dependent by another taxpayer also filed his or her own return, that individual could not claim his or her own exemption.

With few exceptions, an individual had to meet five requirements to qualify as a dependent for 1999:

- 1) The individual received more than half of his or her support for 1999 from the taxpayer;
- 2) The individual was related to the taxpayer (such as a son, daughter, or parent) or was a member of the same household for the entire year;
- 3) The individual did not file a joint return with his or her spouse;
- 4) The individual met certain citizenship requirements;
- 5) The individual's gross income was less than \$2,750. An exception to the income limitation was granted to children under age 19 or full-time students under age 24.

These statistics classify the exemptions as children at home, children away from home, parents, and other.

If a taxpayer had AGI above certain levels, his or her personal exemption deduction may have been reduced or eliminated. For single taxpayers, the phaseout began at \$126,600 and was completed at \$249,100; for married persons filing jointly and surviving spouses, the phaseout began at \$189,950 and was completed at \$312,450; for heads of household, the phaseout began at \$158,300 and was completed at \$280,800; and for married persons filing separately, the phaseout began at \$94,975 and was completed at \$156,225.

## **Farm Net Income or Loss**

(line 18, Form 1040)

This source of income or loss was reported by individuals who were sole proprietors of farms. When there were two or more farms operated by the same taxpayer, the single amount of profit or loss included in the adjusted gross income represented the combined profit and loss from all farming activities. Farm business total expenses (line 35, Schedule F) were deducted from farm gross income (line 11, Schedule F) to arrive at farm net profit or loss.

Gains from certain sales of livestock and crops that qualified for capital gains treatment were excluded from farm net profit or loss and were included in capital gains. Farm rental income was included in total rent net income or loss. (See also "Farm Rental Net Income or Loss.")

## **Farm Rental Net Income or Loss**

(line 39, Schedule E)

Taxpayers were required to report farm rental income and expenses separately from other farm profit or loss if they: a) received income that was based on crops or livestock produced by the tenant, and b) did not manage or operate the farm to any great extent. This income and expenses were reported on Form 4835 with net income less loss then reported on Schedule E.

## **Filing Status**

See "Marital Filing Status."

## **Foreign-Earned Income Exclusion<sup>D</sup>**

(included in line 21, Form 1040)

Qualified taxpayers could exclude from total income a certain amount of their foreign-earned income and employer-provided foreign housing expenses if their home, for tax purposes, was in a foreign country.

Qualifying individuals were limited to the lesser of a \$74,000 exclusion or their total foreign-earned income. Also, they could elect to exclude a portion of employer-provided foreign housing expenses. If the taxpayer elected to take both the foreign-earned income and foreign housing exclusions, the total amount of both exclusions was limited to the taxpayer's total foreign earned income. The foreign-earned income exclusion was entered as a negative amount on this line by the taxpayer but edited into a separate field during service center processing. The employer-provided foreign housing exclusion was left as part of other income.

## **Foreign Housing Deduction**

(included in the total on line 32, Form 1040)

Qualified taxpayers who had foreign housing expenses that were not provided by their employer were eligible to deduct these expenses from total income. This deduction together with the foreign-earned income exclusion was limited to the total amount of foreign-earned income for 1999.

## **Foreign Tax Credit**

(line 46, Form 1040)

Individuals who paid income or excess profit taxes to a foreign country or U.S. possession could claim either this credit against Federal income tax liability, or take an itemized deduction for the amount of the foreign tax payment. Depending on the taxpayer's income and taxes, the foreign tax credit



could be less than the amount of foreign tax paid. Qualifying foreign taxes paid in excess of the allowable amount for Tax Year 1999 could be carried back 2 years and then forward 5 years.

## Forms 1040, 1040A, 1040EZ, and 1040PC

The individual income tax system utilizes three major forms to collect income and tax information: the 1040, 1040A, and 1040EZ. Variations of the three basic forms included 1040PC, Telefile (Form 1040EZ's where all information is filed by telephone), and electronic filing. Form 1040PC returns were generated by IRS-approved software on a personal computer, and were typically condensed versions of the standard paper forms.

Returns of all of these types were included in the population of returns subjected to sampling, and were classified by the guidelines for filing a standard form (i.e., Forms 1040, 1040A and 1040EZ), discussed below. For example, if a return was filed electronically that would have been a Form 1040EZ had it been filed on paper, it would have been considered a Form 1040EZ in the statistics. All Telefile returns were considered to have been Form 1040EZ for these statistics. 1040PC returns were classified separately, regardless what standard forms they would have been classified under.

The forms represented different levels of complexity in regard to the information reported. The Forms 1040A and 1040EZ, for instance, could only be used if an individual's taxable income was less than \$50,000, his or her non-wage income came from only a limited number of sources, and the taxpayer did not itemize deductions. The Form 1040 had to be used if taxable income was greater than \$50,000. In addition, the taxpayer had to file Form 1040 if he or she itemized deductions or had income (or losses) from a source not provided for on Form 1040A or 1040EZ, used certain tax provisions, or had certain tax credits not on Form 1040A or 1040EZ. (These forms can be found in Section 5, 1999 Forms.)

## Gambling Earnings

(included in line 21, Form 1040)

Gambling earnings include proceeds from lotteries, raffles, etc., and are included in line 21, Form 1040. These gambling earnings were edited into a separate field during service center processing. Gambling losses were not allowed to offset winnings on line 21. Instead, gambling losses were an itemized deduction reported on Schedule A. (See also "Gambling Loss Deduction.")

## Gambling Loss Deduction

(included in line 27, Schedule A)

Gambling losses (to the extent of gambling winnings) were fully deductible for taxpayers who itemize deductions. (See also "Gambling Earnings", "Total Itemized Deductions", and "Miscellaneous Itemized Deductions.")

## General Business Credit

(line 47a, Form 1040)

The general business credit consisted of the investment credit, the work opportunity credit, the welfare-to-work credit, the alcohol fuel credit, the research credit, the low-income housing credit, the enhanced oil recovery credit, the disabled access credit, the renewable electricity production credit, the Indian employment credit, the credit for employer social security and Medicare tax paid on employee tips, the orphan drug credit, the community development corporation credit, the Alaska pipeline liability fund credit, and the credit from electing large partnerships. Taxpayers claiming more than one of the credits were required to summarize them on Form 3800, *General Business Credit*. The general business credit was limited to 100 percent of the first \$25,000 (\$12,500 for a married couple filing separately) of tax liability and 25 percent of the excess over \$25,000. If the current year general business credit exceeded the tax liability limitation, the excess amount could be carried back to the 3 preceding tax years, then forward 15 years.

## Home Mortgage Interest Deduction

(lines 10+11, Schedule A)

See "Interest Paid Deduction."

## Household Employment Taxes D

(line 55, Form 1040)

Taxpayers paying domestic employees more than \$1,100 generally had to pay social security and Medicare taxes for these employees with their income tax return by filing Schedule H, *Household Employment Taxes*.

## Income Subject to Tax

See "Modified Taxable Income."

## Income Tax After Credits

[(line 40 minus line 48) minus part or all of line 59a, Form 1040]

To arrive at income tax after credits, taxpayers deducted total credits (line 48, Form 1040) from income tax before credits (line 40, Form 1040). For the statistics, tax was further reduced by the portion of the earned income credit which did not result in a negative tax. This portion of the earned income credit was included in the total credits as "earned income credit used to offset income tax before credits." Any tax remaining after subtraction of all credits and the earned income credit was tabulated as "income tax after credits."

## Income Tax Before Credits

(line 40, Form 1040)

This amount consisted of the tax liability on taxable income, computed by using the tax tables, tax rate schedules, Schedule D Tax worksheet, Schedule J (Farm income averaging), or Form 8615, plus Form(s) 8814 (line 40a), and any additional taxes from Form 4972 (line 40b). (See also "Tax Generated.")

## Income Tax Withheld

(line 57, Form 1040)

Income tax withheld included amounts deducted from salaries, wages, and tips, as reported on Form W-2; deducted from pensions, annuities, and certain gambling winnings as reported on Forms 1099-R and W-2G; and withheld from total distributions of profit-sharing, retirement plans, and individual retirement accounts, as reported on Form 1099-R.

In some cases, a backup withholding rate of 31 percent was required for interest, dividend, and royalty payments which, generally, were not subject to withholding.

## Individual Retirement Arrangement Deductible Payments D

(lines 23, Form 1040)

An individual retirement arrangement (IRA) is a savings program that allows a taxpayer to set aside money for retirement. In addition to the traditional IRA, there were two other plans for the taxpayer: the education IRA and Roth IRA, information on these two new IRA's can be found under their separate headings.

Taxpayers not covered by an employment retirement plan may have been able to deduct all contributions to a traditional IRA, even if their spouses were covered by a plan. The deduction was limited to \$2,000 and was phased out for modified AGI (on a joint return) between \$150,000 and \$160,000. The modified AGI levels at which the traditional IRA deduction phased out (for taxpayers covered by a retirement plan at work) was between \$51,000 and \$61,000 for married persons filing jointly and surviving spouses; between \$31,000 and \$41,000 for single filers or heads of households; and between \$0 and \$10,000 for married taxpayers filing separately. Deductible contributions could be subtracted from the employee's total income in arriving at adjusted gross income.

Contributions to an IRA (whether or not they were deductible) were limited to the lesser of: (a) the individual's taxable compensation for the year, or (b)

\$2,000. Married couples filing a joint return could contribute up to \$2,000 to each spouse's IRA, even if one spouse had minimal or no compensation. Therefore, the total combined IRA contributions could be up to \$4,000 for a year.

Unless they were disabled, taxpayers could not start withdrawing funds from the traditional account until they reached age 59-1/2. After age 70-1/2 taxpayers were required to begin withdrawals. Penalty taxes were assessed if the taxpayer failed to comply with these limitations. The additional tax on early withdrawals from a traditional IRA was eliminated if the distributions were used for qualified higher education expenses. This additional tax was also eliminated on distributions up to \$10,000 from traditional or Roth IRA's if the distributions were used to buy, build, or rebuild a qualified first home.

Payments to an IRA for a particular taxable year had to be made no later than the due date of the individual's return for that year. (See also "Roth IRA" and "Education IRA.")

## Individual Retirement Arrangement Taxable Distributions

(line 15b, Form 1040)

Any money or property received from a taxpayer's IRA account was considered a distribution and, generally, had to be included in the taxpayer's total income in the year received. Exempted from this rule were tax-free roll-over distributions from one retirement account to another, distributions where the payout represented previously taxed non-deductible IRA contributions, and distributions from a Roth IRA. If a taxpayer converted from a traditional IRA to a Roth IRA, they were required to include in gross income the amount that they would have reported in income if they had made a withdrawal from this IRA. The taxpayer did not include in gross income any part of the conversion that was a nondeductible contribution in a traditional IRA.

## Interest Paid Deduction

(line 14, Schedule A, includes all lines 10-13)

The rules for deducting home mortgage interest for 1999 were: (1) if a taxpayer took out a mortgage before October 13, 1987, secured by the taxpayer's main or second home, all the interest was deductible, (2) if the taxpayer's mortgage was after October 13, 1987, and the funds were used to buy, build, or improve that home, all interest could be deducted if the total of all mortgages on the property was \$1 million or less (\$500,000 if married filing separately), and (3) taxpayers could deduct all of the interest on an additional \$100,000 (\$50,000 if married filing separately) of mortgages on their main or second home other than to buy, build, or improve that home.

Generally, investment interest (interest paid on money borrowed that is allocable to property held for investment) was fully deductible up to the amount of net investment income. Beginning in 1993, the net investment income that was to be compared to investment interest could not include any net capital gains taxed on the capital gain tax rates. Interest relating to business, royalty, and rental income was deducted directly from these items and was not reflected in the interest paid statistics.

## Interest Received

See "Taxable Interest Received."

## Interest, Tax-Exempt

See "Tax-Exempt Interest."

## Investment Interest Expense Deduction

(line 13, Schedule A)

See "Interest Paid Deduction." and "Total Itemized Deductions."

## Itemized Deductions

See "Total Itemized Deductions" and specific itemized deductions.

## Itemized Deduction Limitation

See "Total Itemized Deductions."

## Limited Miscellaneous Deductions

(lines 20-26, Schedule A)

Certain taxpayer expenses could be deducted on Schedule A, but were limited to the amount that exceeded 2 percent of adjusted gross income. These included: unreimbursed employee business expenses (including qualifying educational expenses), tax preparation fees, expenses paid to produce or collect taxable income, and expenses paid to manage or protect property held for earning income (including safe deposit boxes).

## Long-Term Capital Gain or Loss

(line 16, Schedule D)

These include gains or losses from sales of capital assets held more than one year. (See also "Sales of Capital Assets, Net Gain or Loss.")

## Long-Term Gain or Loss from Other Forms

(line 11, Schedule D)

The other forms include:

- Long-term gains from Forms 4797, 2439, and 6252;
- Long-term gain or loss from Forms 4684, 6781, and 8824

See "Sales of Capital Assets, Net Gain or Loss."

## Long-Term Loss Carryover

(line 14, Schedule D)

Long-term capital losses from the prior year Schedule D that are carried over to the current year. (See "Sales of Capital Assets, Net Gain or Loss.")

## Marginal Tax Rates

Different portions of taxable income are taxed at different rates. The tax rate applied to the last dollar of income is called the "marginal tax rate" for that return. (See also "Tax Generated.")

## Marital Filing Status

(lines 1-5, Form 1040)

The five marital filing status classifications were:

- (1) returns of single persons (not heads of household or surviving spouses);
- (2) joint returns of married persons;
- (3) separate returns of married persons;
- (4) returns of heads of household; and
- (5) returns of surviving spouses.

Marital filing status was usually determined as of the last day of the tax year. The exception was that if one's spouse died during the tax year, the survivor was considered married for the entire year. If a taxpayer was divorced during the tax year and did not remarry, the taxpayer was considered to be unmarried for the entire year. Surviving spouse status could only be used by those taxpayers whose spouse died in 1997 or 1998, and had a qualifying dependent.

## Medical and Dental Expenses Deduction

(lines 1-4, Schedule A)

Qualified medical expenses included nonreimbursed payments made for the diagnosis, treatment, or prevention of disease or for medical or dental insurance. However, taxpayers who took the self-employed health insurance adjustment had to reduce their total premium deduction by the amount of the adjustment (see "Self-Employed Health Insurance"). In general, medical and dental expenses could be claimed as an itemized deduction to the extent that they exceeded 7.5 percent of adjusted gross income. Amounts paid for medicine and drugs were deductible only for items not available except by prescription or were for insulin. Taxpayers could deduct costs for transportation to obtain medical care and also a maximum of \$50 per day for certain lodging expenses incurred while traveling to obtain medical care. (See also "Total Itemized Deductions.")

## Medical and Dental Expenses Limitation

(line 3, Schedule A)

See "Medical and Dental Expenses Deduction" and "Total Itemized Deductions."

## Medical Savings Account Deduction D

(line 25, Form 1040)

Certain taxpayers who were covered only by a high-deductible health plan were able to participate in the medical savings account program. The taxpayer was allowed to take a deduction of up to \$1,495 (\$3,450 for a family) a year for contributions to a medical savings account. The medical savings accounts were used to pay for medical expenses not reimbursable by medical insurance. Form 8853 was used for the medical savings accounts.

## Minimum Tax Credit

(line 47c, Form 1040)

A minimum tax credit could be taken for 1999 by certain taxpayers who paid alternative minimum tax for 1998 or prior years. If all of the minimum tax credit (claimed on Form 8801) could not be used for 1999, the excess could be carried forward to later years.

## Miscellaneous Deductions Other Than Gambling

(included in line 27, Schedule A)

Other fully deductible expenses included such items as impairment-related work expenses for disabled persons, and amortizable bonds. (See also "Miscellaneous Itemized Deductions" and "Total Itemized Deductions.")

## Miscellaneous Deductions Subject to 2% AGI Limitation

(lines 20-26, Schedule A)

See "Limited Miscellaneous Deductions" and "Miscellaneous Itemized Deductions."

## Miscellaneous Itemized Deductions

(lines 20-27, Schedule A)

Miscellaneous itemized deductions were divided into two types. The first, such as employee business expenses, included those items that were limited to the amount that exceeded 2 percent of adjusted gross income, while the expenses of the other types, such as gambling losses not in excess of gambling winnings, were fully deductible. (See also "Gambling Loss Deduction," "Limited Miscellaneous Deductions," and "Miscellaneous Deductions Other Than Gambling.")

## Modified Taxable Income

"Modified taxable income" is the term used to describe "income subject to tax," the actual base on which tax is computed for the statistics in Tables 3.4, 3.5, and 3.6. For most taxpayers filing current year returns, modified taxable income is identical to "taxable income." For those returns with a Form 8814, *Parents' Election To Report Child's Interest and Dividends* attached, modified taxable income includes the sum of all children's interest and dividend income taxed at a 15 percent rate, as well as the parent's taxable income.

For prior year returns included in the 1999 statistics, a modified taxable income was calculated by using the tax rate schedule for 1999 to impute a hypothetical taxable income amount necessary to yield the given amount of tax reported.

A person who has no tax will have no modified taxable income. Since the tax rate schedule is used to generate the modified taxable income, it is possible for a person to have up to four dollars of taxable income but have no modified taxable income because their tax reported would be zero.

## Moving Expenses Adjustment

(line 26, Form 1040)

Taxpayers deducted current-year qualified moving expenses in the calculation of adjusted gross income as a statutory adjustment. In order to qualify for this deduction, the new work place had to be at least 50 miles farther from the former residence than the older. Deductible expenses included those incurred to move household and personal goods,

and travel including lodging en route to the new residence. Expenses no longer deductible included: meals while moving from the old residence to the new residence; travel expenses for pre-move house hunting trips; expenses while occupying temporary quarters in the area of the new job; and qualified residence sale, purchase, and lease expenses.

**Net Capital Gain in AGI less loss**

See "Sales of Capital Assets, Net Gain or Loss."

**Net Long-Term Gain or Loss from Sales of Capital Assets**

See "Sales of Capital Assets, Net Gain or Loss."

**Net Operating Loss**

(included in line 21, Form 1040)

The excess loss of a business when AGI for a prior year was less than zero. The loss could be applied to the AGI for the current year and carried forward up to 15 years. (See also "Other Income.")

**Net Short-Term Gain or Loss from Sales of Capital Assets**

See "Sales of Capital Assets, Net Gain or Loss."

**Nonconventional Source Fuel Credit**

(included in line 47d, Form 1040)

This nonrefundable credit was available to taxpayers who sold fuel produced from a nonconventional source. Examples would be oil produced from shale and tar sands, gas produced from geopressured brine or biomass, and liquid, gaseous, or solid synthetic fuels produced from coal.

**Nondeductible Passive Losses**

(calculated on Form 8582)

Nondeductible passive losses were calculated by subtracting deductible passive losses reported on Form 8582 (line 11) from total current year passive losses (lines 1b+2b) and were limited to zero.

**Nontaxable Returns**

See "Taxable and Nontaxable Returns."

**Other Adjustments**

(included in line 32, Form 1040)

See "Statutory Adjustments."

**Other Income**

(line 21, Form 1040)

Included in other income were items such as prizes, awards, recoveries of bad debts, insurance received as reimbursement for medical expenses taken as a deduction in a previous year, children's interest and dividends from Form 8814, qualified state tuition program earnings, Alaska permanent fund dividends, and any other income subject to tax for which no specific line was provided on the return form. Any foreign-earned income exclusions or "net operating loss" in an earlier year (that was carried forward and deducted for 1998) was entered as a negative amount on this line by the taxpayer but edited into separate fields during service center processing. However, any employer-provided foreign housing exclusions were included in other income (as a negative amount). Gambling earnings, which were entered on this line by the taxpayer, were edited into a separate field during service center processing.

**Other Payments**

(line 63, Form 1040)

See "Credit for Federal Tax on Gasoline and Special Fuels" and "Credit from Regulated Investment Companies."

**Other Tax Credits**

(included in lines 47d, 48, Form 1040)

"Other tax credits" is a residual category in the statistics. It includes other miscellaneous credits that did not belong in any other category and were used to offset income tax before credits.

## Other Taxes Deduction

(line 8, Schedule A)

Other taxes consisted of any deductible tax other than state and local income taxes, real estate taxes, and personal property taxes. Examples of other taxes are taxes paid to a foreign country or US possession. (See also "Personal Property Tax" and "Taxes Paid Deduction.")

## Overpayment

(line 65, Form 1040)

An overpayment of tax occurred when "total tax payments" exceeded "total tax." Overpayments included the amount of any "refundable portion of the earned income tax credit." An overpayment could be refunded or credited toward the estimated tax for the following year. (See also "Credit to 2000 Estimated Tax" and "Refund.")

## Overpayment Refunded

(line 66a, Form 1040)

See "Overpayment" and "Refund."

## Parents' Election to Report Child's Interest and Dividends

(calculated on Form 8814)

A parent could elect to report on his or her return income received by his or her child. If the election were made, the child was not required to file a return. A parent could make this election if the child:

- was under age 14 on January 1, 2000;
- had income only from interest and dividends and capital gain distributions;
- had gross income for 1999 that was more than \$700 but less than \$7,000;
- had no estimated tax payments for 1999;
- did not have any overpayment of tax shown on his or her 1998 return applied to the 1999 return; and
- had no Federal income tax withheld from his or her income (backup withholding).

If the parents were not filing a joint return, special rules applied to determine which parent could make the election. (See also "Modified Taxable Income.")

## Partnership and S Corporation Net Income or Loss

(line 31, Schedule E)

Partnerships and S Corporations (formerly Subchapter S Corporations) are not taxable entities; therefore, tax on their net profit or loss was levied, in general, directly on the members of the partnership or shareholders of the S Corporation. The profit or loss shown in the statistics was the taxpayer's share of the ordinary gain or loss of the enterprise, and certain payments made to the taxpayer for the use of capital or, for partnership, as salary. Net long-term capital gains received from partnerships and S Corporations were reported on Schedule D.

If a return showed net income from one partnership or S Corporation and a net loss from another, the two were added together, and the return was tabulated by the net amount of income or loss in the appropriate column. Beginning in 1987, net income and net loss were reported separately for passive and non-passive partnership and S corporation activities. Passive losses were limited under new rules to the amount that could offset passive income.

## Passive Activity Losses

Losses generated by any "flow-through" business activity (such as partnerships or S Corporations for which profits and certain other amounts were passed directly through to the owners), in which the taxpayer did not "materially participate" (i.e., was not involved regularly and substantially in the operations of the activity) qualified as passive activity losses. (See also "Nondeductible Passive Losses.")

## Payment with Request for Extension of Filing Time

(line 61, Form 1040)

This payment was made when the taxpayer filed Form 4868, *Application for Automatic Extension of Time to File U.S. Individual Income Tax Return*, or Form 2688, *Application for Additional Extension of Time to File*. The extension granted the taxpayer an additional period of time to file a tax return, but did not extend the time for the payment of the expected tax. Full payment of any tax due had to be made with the application for extension.

## Payments to a Keogh Plan

(line 29, Form 1040)

Self-employed individuals were allowed to contribute to a Keogh retirement plan or a simplified employment pension plan for themselves and to deduct all or part of such contributions in computing adjusted gross income. The amount which could be deducted was based on net earnings from self-employment.

## Penalty on Early Withdrawal of Savings

(line 30, Form 1040)

Taxpayers who paid penalties for the premature withdrawal of funds from time savings accounts or deposits could deduct those penalties as an adjustment to total income.

## Penalty Tax on Qualified Retirement Plans

(line 53, Form 1040)

If taxpayers withdrew any funds from an Individual Retirement Arrangement or qualified retirement plan before they were either age 59-1/2 or disabled, they were subject to a penalty tax equal to 10 percent of the premature distribution. Any taxpayer who failed to withdraw the minimum required distribution after reaching age 70-1/2 had to pay a 50 percent excise tax on the excess accumulation. Contributions to the retirement plans in excess of the legal limitation for the year (the lesser of \$2,000 or the taxpayer's compensation for the

year) were subject to an excise tax equal to 6 percent of the excess contribution.

## Pensions and Annuities

(lines 16a, 16b, Form 1040)

Generally, pensions are periodic income received after retirement for past services with an employer, while annuities are income payable at stated intervals after payment of a specific premium. A taxpayer could acquire a pension or annuity either by purchase from a commercial organization (usually life insurance, endowment, or annuity contracts) or under a plan or contract connected with the taxpayer's employment. Those pensions or annuities obtained in connection with employment could be purchased entirely by the taxpayer or could be financed in part (a contributory plan) or in whole (a non-contributory plan) by contributions of the employer.

Since a non-contributory plan was paid for entirely by an employer, the amount received by the employee was fully taxable. This fully taxable pension was reported on lines 16a and 16b. For the taxpayer who participated in a contributory retirement plan while employed, the amount received was only partially taxable. In general, the amount excludable from gross income, the nontaxable portion, represented the taxpayer's contributions under the plan, while the taxable portion represented the employer's contribution and earnings on the entire investment. The nontaxable contribution had to be amortized over the expected lifetime of the taxpayer.

The entire amount of pensions and annuities received for the year was reported on line 16a of the Form 1040. The taxable portion was computed on a separate worksheet and entered on line 16b.

## Personal Property Taxes Deduction

(line 7, Schedule A)

Personal property tax could be included as a deduction if the tax was an annual tax based on value alone. (See also "Taxes Paid Deduction.")



## **Predetermined Estimated Tax Penalty**

(line 69, Form 1040)

If a return showed taxes of \$1,000 or more owed on line 68 (tax due at time of filing) and this amount was more than 10 percent of the total tax, the taxpayer could owe a penalty, unless tax payments in the current year equaled or exceeded prior-year tax liability (provided prior-year liability was greater than zero). Also, taxpayers could owe a penalty if they underpaid their 1999 estimated tax liability for any payment period. Form 2210 was used to determine the amount of a penalty, if any.

For this report, the predetermined estimated tax penalty includes only the amount calculated by the taxpayer when the return was initially filed.

## **Real Estate Taxes**

(line 6, Schedule A)

This amount included taxes paid on real estate that was owned and not used for business by the taxpayer. The real estate taxes could only be used as a deduction if the taxes were based on the assessed value of the property. Also, the assessment had to be made uniformly on property throughout the community, and the proceeds had to be used for general community or governmental purposes. (See also "Taxes Paid Deductions").

## **Recapture Taxes**

(included in line 56, Form 1040)

See "Tax from Recomputing Prior Year Investment Credit."

## **Refund**

(line 66a, Form 1040)

A refund of tax included all overpayment of income taxes not applied by the taxpayer as a credit to the next year's estimated tax. (See also "Overpayment.")

## **Refund Credited to Next Year**

(line 67, Form 1040)

See "Credit to 2000 Estimated Tax."

## **Regular Tax Computation**

Typically, the taxpayer, in determining the amount of "tax generated," first computed taxable income. Depending on marital status and size of taxable income, the taxpayer then used the tax table or applied the rates from one of four tax rate schedules to determine tax. Also, returns of taxpayers who had taxes computed by the Internal Revenue Service were classified under the regular tax computation method. If a taxpayer filed a Form 8615 or had any long-term capital gains taxed at a rate less than the tax tables, then they were not considered as regular tax computations.

## **Rent and Royalty Net Income or Loss**

(lines 24-25, Schedule E)

This amount was the combination of rent net income, rent net loss, royalty net income, and royalty net loss. This amount did not include passive losses that were not deductible, but included carryovers of previous years' passive losses. (See also "Passive Activity Losses.")

## **Rent Net Income or Loss**

(line 22, columns A,B,C, Schedule E)

Rent net income or loss was determined by deducting from gross rent, the amounts for depreciation, repairs, improvements, interest, taxes, commissions, advertising, utilities, insurance, janitorial services, and any other allowable expenses related to the rented property. In the statistics, total rental net loss includes passive losses that were not deductible in figuring AGI. (See also "Passive Activity Losses." and "Total Rent and Royalty Income or Loss in AGI.")

## Roth IRA

(lines 14a-26, Form 8606)

Unlike traditional IRA's, contributions to a Roth IRA were not deductible. However, qualified distributions from the earnings of a Roth IRA were tax-exempt. The contribution limit for Roth IRA's was the lesser of \$2,000 or the individual's taxable compensation unless the taxpayer contributed to both Roth IRA's and traditional IRA's. In this case, the contribution limit for Roth IRA's was reduced by all contributions (other than employer contributions) to traditional IRA's for the taxable year. The eligibility for Roth IRA's was phased out for joint filers with modified AGI between \$150,000 and \$160,000, married taxpayers filing separately and living with their spouses with modified AGI between \$0 and \$10,000, and all other filers (single, head of household, and married filing separately and not living with their spouse at any time during the year) with modified AGI between \$95,000 and \$110,000. Contributions to Roth IRA's could be made after the taxpayer reached the age of 70½. Also, the minimum distribution rules did not apply to living taxpayers as they did for traditional IRA's.

Some taxpayers were also eligible to make taxable rollovers of traditional IRA's to Roth IRA's without paying the 10 percent tax on early withdrawals. Taxpayers had to have a modified AGI of \$100,000 or less to be able to roll over a traditional IRA to a Roth IRA. When a taxpayer converted an amount from the traditional IRA to a Roth IRA, they were required to include in gross income the amount that they would have reported in income if they had made a withdrawal from this IRA. The taxpayer did not include in gross income any part of the conversion that was a nondeductible contribution in a traditional IRA. Married taxpayers filing separately could not take advantage of this rollover provision. (See also "Individual Retirement Arrangement Taxable Distributions.")

## Royalty Net Income or Loss

(line 22, columns A, B, C, Schedule E)

Net royalties consisted of gross royalties less deductions for depletion, depreciation, office rent, legal fees, clerical help, interest, taxes, and similar items. Gross royalties included revenues from oil, gas, and other mineral rights; revenue from patents; and revenue from literary, musical, or artistic works. Certain royalties received under a lease agreement on timber, coal, and domestic iron ore were eligible for capital gains or ordinary loss treatment under Code section 1231. As a result of the separate computation, those royalties are reflected in the statistics for "sales of capital assets" and "sales of property other than capital assets." (See also "Total Rent and Royalty Income or Loss in AGI.")

## S Corporations

See "Partnership and S Corporation Net Income or Loss."

## Salaries and Wages

(line 7, Form 1040)

Salaries and wages as reported on the tax return were amounts of compensation primarily for personal services. The following items are included:

- salaries;
- wages;
- commissions;
- bonuses;
- tips;
- fees;
- excess reimbursement of employee business expenses;
- moving expenses allowances;
- the difference between the fair market value of certain property and the discount price for which it was purchased by a taxpayer from his or her employer;
- severance pay;
- sick pay;
- the value of exercising a stock appreciation right;
- directors' fees;
- vacation allowances;
- most disability payments;

- strike and lockout benefits; and
- the value of certain non-monetary payments for services (e.g., merchandise, accommodations, certain meals or lodging, certain stock purchase plans, or property).

Identifiable amounts for any of these categories, which may have been reported by taxpayers as "other income," are treated as salaries and wages for the statistics.

## Sales of Capital Assets, Net Gain or Loss

(line 13, Form 1040)

In general, capital assets for tax purposes included all property held for personal use or investment. Examples of such assets were furniture, automobiles, and stocks and bonds. Most assets used for business activities were specifically excluded from treatment as capital assets. (See also "Sales of Property Other Than Capital Assets, Net Gain or Loss.")

The following concepts are used in the computation of net capital gain or loss for this report:

*Long-term or short-term:* If the holding period was one year or less, the asset was considered short-term; otherwise, it was considered long-term.

*Net capital gain:* If the combination of net short-term gain or loss and net long-term gain or loss resulted in a positive amount, the taxpayer had a net capital gain. The full amount of this gain, whether short-term or long-term was included in adjusted gross income.

*Net capital loss:* If the combination of net short-term gain or loss and net long-term gain or loss resulted in a negative amount, the taxpayer showed a net capital loss. The amount of net capital loss to be included in adjusted gross income was limited to the smaller of the actual net capital loss or \$3,000 (\$1,500 for married persons filing separately). Any excess capital losses over the \$3,000 limit could be carried over to subsequent tax years ("capital loss carryover" in the statistics).

The maximum long-term capital gains tax rate for most sales or exchanges of properties was 20

percent (10 percent for taxpayers in the 15-percent tax bracket). Collectible gains and up to 50 percent of eligible gains on qualified small business stock were taxed at the 28-percent rate. Gains from the sale of certain depreciable real property was taxed at a 25-percent rate. Therefore, the long-term capital gain tax rate could be 10-percent, 20-percent, 25-percent, or 28-percent.

Taxpayers who sold their main homes after May 6, 1997, were generally able to exclude from income up to \$250,000 (\$500,000 for married couples filing a joint tax return) of the gain on the sale of their homes.

## Sales of Capital Assets Reported on Schedule D

See "Sales of Capital Assets, Net Gain or Loss."

## Sales of Property Other Than Capital Assets, Net Gain or Loss

(line 14, Form 1040)

Property other than capital assets generally included property of a business nature, in contrast to personal or investment property, which were capital assets. Some types of property specifically included in this group were:

- (1) certain depreciable, depletable, and real business property;
- (2) accounts and notes receivable in the ordinary course of business generated from the sale of goods and services ordinarily held for sale by the business or includable in the inventory of the business;
- (3) certain copyrights, literary, musical, or artistic compositions, or similar properties; and
- (4) amounts resulting from certain "involuntary conversions," including net losses from casualty and theft.

Taxpayers reported all gains and losses not treated as capital gains on Form 4797, *Sales of Business Property*.

## Self-Employed Health Insurance Deduction D

(line 28, Form 1040)

Self-employed persons, or owners of more than 2 percent of outstanding stock of an S Corporation, if they were not eligible for health coverage under an employer-provided plan, were allowed to deduct, in the calculation of AGI, up to 60 percent of the amount paid for health insurance for themselves and their families.

## Self-Employment Tax D

(line 50, Form 1040)

The ceiling for social security tax on taxable self-employment income for 1999 was \$72,600 (\$68,400 for 1998). The limit did not apply for purposes of the Medicare tax. All net earnings greater than \$400 (\$108.28 for church employees) was subject to the Medicare tax portion. (See also "Total Tax Liability.")

## Short-Term Capital Gain or Loss

(line 7, Schedule D)

These include gains and losses from sale of capital assets held one year or less. (See "Sales of Capital Assets, Net Gain or Loss.")

## Short-Term Gain or Loss from Other Forms

(line 4, Schedule D)

The other forms include:

- Short-term gains from Form 6252
- Short-term gain or loss from Forms 4684, 6781, and 8824

See "Sales of Capital Assets, Net Gain or Loss."

## Short-Term Loss Carryover

(line 6, Schedule D)

Short-term capital losses from the prior year Schedule D that are carried over to the current year. (See "Sales of Capital Assets, Net Gain or Loss.")

## Size of Adjusted Gross Income

(line 33, Form 1040)

The amount of adjusted gross income reported by the taxpayer on the return was the basis for classifying data by size of adjusted gross income. Returns without positive adjusted gross income, such as deficit returns or returns on which income and loss were equal, were classified as having "no adjusted gross income" and appear as a separate class in most basic tables. The absence of a class labeled "no adjusted gross income" indicates that any deficit or break-even returns in a table were included in the lowest income size class. See "Adjusted Gross Income Less Deficit."

## Social Security Benefits

(lines 20a, 20b, Form 1040)

Social security benefits included any monthly benefit under title II of the Social Security Act or the part of a "tier 1 railroad retirement benefit" that was equivalent to a social security benefit. Social security benefits were not taxable unless the taxpayer's total income (including tax-exempt interest) plus one-half of total social security benefits exceeded certain levels. The maximum taxable amount was up to 85 percent of the net social security benefits received. Social security benefits received were reported on Form 1040, line 20a and the taxable portion was reported on line 20b. Taxpayers who had no taxable benefits were not supposed to show the total benefits on their income tax returns.

## Social Security and Medicare Tax on Tip Income

(line 52, Form 1040)

Cash tips amounting to \$20 or more received by the taxpayer in a month while working for any one employer were subject to withholding of income tax, social security tax (or the equivalent railroad retirement tax), and Medicare tax. If the employer was unable to withhold the social security and Medicare tax, the amount of uncollected social

security tax on tips was indicated on the employee's Form W-2, and the employee was required to report the uncollected tax and pay it with the Form 1040. If the employee did not report the tips to the employer, the employee was required to compute the social security and Medicare tax on unreported tips on Form 4137 and attach it to Form 1040.

## Standard Deduction D

(included in line 36, Form 1040)

For 1999, the basic standard deduction was increased. Taxpayers who were age 65 or over or blind could claim an additional standard deduction amount of \$850 or \$1,050 based on filing status. Both the basic and additional standard deductions were determined by marital filing status, as shown below.

### *Single*

Basic deduction of \$4,300;

Each taxpayer 65 or over or blind was allowed an additional \$1,050 deduction each for age and blindness.

### *Married filing jointly or surviving spouses*

Basic deduction of \$7,200;

Each taxpayer 65 or over or blind was allowed an additional \$850 deduction each for age and blindness.

### *Married, filing separately*

Basic deduction of \$3,600;

Each taxpayer 65 or over or blind was allowed an additional \$850 deduction each for age and blindness.

### *Head of Household*

Basic deduction of \$6,350;

Each taxpayer 65 or over or blind was allowed an additional \$1,050 deduction each for age and blindness.

The basic standard deduction claimed by filers who were dependents of other taxpayers was a minimum of \$700. The amount of the standard deduction for a dependent could be greater than \$700 and equal to the dependent's earned income plus \$250 (but not more than the regular standard deduction amount).

In the statistics, the basic standard deduction is tabulated for all taxpayers who claimed it, including those who were 65 or over and/or blind. The "additional standard deduction" total includes only the additional amount that was taken by those taxpayers who were 65 or over and/or blind.

## State Income Tax Refund

(line 10, Form 1040)

If a taxpayer received a refund, credit, or offset of state or local income taxes in 1999 that was paid or deducted before 1999, all or part of that amount had to be reported as income to the extent that an itemized deduction for state and local taxes had previously resulted in a tax benefit.

## State and Local Income Taxes

(line 5, Schedule A)

State and local income taxes paid could be used as an itemized deduction if a taxpayer had state and local income tax withheld from their salary during 1999; had paid state and local income taxes directly during 1999 for a prior year, or had made mandatory contributions to specific state disability funds. (See also "Taxes Paid Deduction.")

## Statutory Adjustments

(lines 23-32, Form 1040)

Certain adjustments to total income were allowed as deductions in the calculation of adjusted gross income. For 1999, statutory adjustments included payments to an IRA, student loan interest deductions, medical savings account deductions, moving expenses, the deduction for one-half of self-employment tax, the self-employed health insurance deduction, payments to a self-employed Keogh retirement plan or a simplified employee pension (SEP), penalty on early withdrawal of savings, alimony paid, and the foreign housing deduction. Each of the above items is described separately in this section. In addition, statutory adjustments included jury duty pay received by the taxpayer and given to the employer if the taxpayer continued to

receive wages while on jury duty, the forestation/reforestation amortization deduction, and the repayment of supplemental unemployment benefits under the Trade Act of 1974. These amounts are included in the "Other Adjustments" category in the statistics.

### **Student Loan Interest Deduction D** (line 24, Form 1040)

Beginning in 1999, a deduction allowed eligible taxpayers to deduct up to \$1,500 for interest paid on qualified higher educational loans. The deduction was phased out for taxpayers with modified AGI between \$40,000 to \$55,000 (\$60,000 to \$75,000 for taxpayers filing a joint return).

### **Tax Credits**

See "Total Tax Credits."

### **Tax Due at Time of Filing** (line 68, Form 1040)

"Tax due" was reported on returns on which total tax liability exceeded total tax payments.

### **Tax from Recomputing Prior-Year Investment Credit** (included line 56, Form 1040)

The investment tax credit provisions of the law included a recapture rule which required taxpayers to pay back some or all of any investment credit previously taken on property disposed of before the end of the useful life claimed in computing the credit. The law specified that if property qualifying for the credit was disposed of before the end of its useful life, the tax for the year of disposal was increased by the difference between the credit originally claimed and the credit that would have been allowed based on the shorter actual life. Tax credits could not be applied against this additional tax.

### **Tax Generated D** (line 40, Form 1040)

This amount was the tax computed on modified taxable income. For 1999, there were five basic tax rates, 15, 28, 31, 36, and 39.6 percent. The 15-percent bracket applied to taxable income equal to or below \$25,750 for single filers; \$43,050 for joint filers or surviving spouses; \$21,525 for married persons filing separately; and \$34,550 for heads of household. The 28 percent tax bracket applied to taxable income in excess of the 15 percent bracket ceiling and equal to or below \$62,450 for single filers; \$104,050 for joint filers or surviving spouses; \$52,025 for married persons filing separately; and \$89,150 for heads of household. The 31 percent tax rate applied to taxable income in excess of the 28 percent tax bracket ceiling and equal to or below \$130,250 for single filers; \$158,550 for joint filers or surviving spouses; \$79,275 for married persons filing separately; and \$144,400 for heads of households. The 36 percent tax rate applied to taxable income in excess of the 31 percent tax bracket ceiling and equal to or below \$283,150 for single filers, joint filers, or surviving spouses and heads of households and \$141,575 for married persons filing separately. The 39.6 percent tax rate applied to taxable income in excess of the upper boundary for the 36 percent tax bracket. The tax generated at each of these tax rates is shown in Tables 3.4, 3.5, and 3.6.

If children under age 14 had investment income that exceeded \$1,400, there were two methods of reporting this income. If the child filed his or her own return, the investment income that exceeded \$1,400 was taxed at the parents' rate on Form 8615 (the remaining investment income was taxed at the child's rate) and tabulated separately in Tables 3.4, 3.5, and 3.6. If the parents elected to report the child's investment income on their return, they attached a Form 8814. The investment income in excess of \$1,400 was included on either Form 1040, line 21 or in the case of capital gains distributions on either Form 1040, line 13 or Schedule D, line 13. The remaining investment income in excess of the \$700 standard deduction was taxed at the child's rate (15 percent), added to the parents' tax on Form 1040, line 40, and is also tabulated separately in Tables 3.4, 3.5, and 3.6.

On most returns, except those with additional taxes from special computations, "tax generated" equaled "income tax before credits." (See also "Modified Taxable Income.")

## Tax Payments

(lines 57, 58, 61-64, Form 1040)

These payments were generally made before the return was filed and were applied against tax liability to determine any amount payable or refundable at the time of filing. They consisted of the following:

- (1) income tax withheld, including backup withholding;
- (2) estimated tax payments (including those from overpayment on 1998 return);
- (3) payment with request for extension of filing time;
- (4) excess social security, Medicare, or railroad retirement tax withheld;
- (5) credit for tax on certain gasoline, fuel, and oil; and
- (6) credit from regulated investment companies.

Each of the above is described under a separate heading in this section.

Although the earned income credit was included with tax payments on the tax return itself (line 59a, Form 1040), for the statistics it is treated partly as a credit against income tax liability and partly as a refundable amount. (See also "Earned Income Credit.") Also, the additional child credit was included on the tax return as a payment but not treated that way for the statistics.

## Tax Penalty

(line 69, Form 1040)

See "Predetermined Estimated Tax Penalty."

## Tax Preparation Fees

(line 21, Schedule A)

Tax preparation fees were included on Schedule A as a miscellaneous deduction, the total of which was subject to a 2 percent of AGI floor. The

amounts reported in the statistics are prior to this floor. (See also "Limited Miscellaneous Deductions.")

## Tax Rates, Tax Rate Classes

See "Tax Generated."

## Tax Withheld

(line 57, Form 1040)

See "Income Tax Withheld."

## Tax-Exempt Interest

(line 8b, Form 1040)

Tax-exempt interest included interest on certain State and municipal bonds, as well as any tax-exempt interest dividends from a mutual fund or other regulated investment company. This was an information reporting requirement and did not convert tax-exempt interest into taxable interest.

## Taxable and Nontaxable Returns

The taxable and nontaxable classification of a return for this report is determined by the presence of "total income tax" (the sum of income tax after credits and the alternative minimum tax). Some returns classified as "nontaxable" may have had a liability for other taxes, such as self-employment tax, uncollected employee social security and medicare tax on tips, tax from recomputing prior-year investment credit, penalty taxes on individual retirement accounts, Section 72 penalty taxes, advance earned income credit payments, household employment taxes, or golden parachute payments. These taxes, however, were disregarded for the purposes of this classification since three of the above taxes were considered social security (rather than income) taxes, and the remaining ones, except for advance earned income payments, were either based on prior year's income or were penalty taxes.

For this report, the earned income credit is treated first as an amount used to offset income tax before credits. Since the earned income credit was refundable, it was subtracted from income tax (for the statistics) after reduction by all other statutory

credits. As a result, some returns became nontaxable strictly because of the earned income credit if there was no alternative minimum tax and the earned income credit equaled or exceeded income tax before credits reduced by any other credits.

It should be noted that classification as taxable or nontaxable was based on each return as it was filed and does not reflect any changes resulting from audit or other enforcement activities.

## **Taxable Income**

(line 39, Form 1040)

Taxable income was derived by subtracting from adjusted gross income any exemption amount and either total itemized deductions or the standard deduction. (See "Modified Taxable Income.")

## **Taxable Interest Received**

(line 8a, Form 1040)

This amount was the taxable portion of interest received from bonds, debentures, notes, mortgages, certain insurance policy proceeds, personal loans, bank deposits, savings deposits, tax refunds, and U.S. savings bonds. Also included as interest were "dividends" on deposits or withdrawable accounts in mutual savings banks, savings and loan associations, and credit unions. These amounts could, in some circumstances, include a child's income which was to be taxed at the parent's rate. Interest on state or local government obligations remained tax-exempt, but the total tax-exempt interest had to be reported on line 8b of Form 1040. It was not included in the taxpayer's income for tax purposes. (See also "Tax-Exempt Interest.")

## **Taxable IRA Distributions (in AGI)**

(line 15b, Form 1040)

See "Individual Retirement Arrangement Taxable Distributions."

## **Taxable Pensions and Annuities (in AGI)**

(line 16b, Form 1040)

See "Pensions and Annuities."

## **Taxable Social Security Benefits**

(line 20b, Form 1040)

See "Social Security Benefits."

## **Taxes Paid Deduction**

(lines 5-9, Schedule A)

Taxes allowed as an itemized deduction from adjusted gross income, included personal property taxes, state and local income taxes, taxes paid to foreign countries or U.S. possessions (unless a foreign tax credit was claimed), and real estate taxes except those levied for improvements that tended to increase the value of the property. Mandatory employee contributions to a state disability fund and employee contributions to a state unemployment fund were also included. Federal taxes were not deductible.

Taxes paid on business property were deducted separately on the schedules for business, rent, royalty, and farm income and are excluded from the "taxes paid" statistics in this report.

## **Total Income**

(line 22, Form 1040)

Total income was the sum of the individual income items (lines 7 through 21) before adjustments.

## **Total Income Tax**

(line 49 + line 51 + any Form 4970 tax on line 56 - line 59a, limited to zero, on Form 1040)

Total income tax was the sum of income tax after credits (including the subtraction of the earned income credit) and the alternative minimum tax. For 1999, total income tax included the tax from Form 4970 (2,043 returns for \$4,381,000). It did not include any of the other taxes which made up total tax liability. Total income tax was the basis for classifying returns as taxable or nontaxable.

## **Total Itemized Deductions D**



(included in line 36, Form 1040)

Itemized deductions from adjusted gross income could be claimed for medical and dental expenses, certain taxes paid, interest paid, charitable contributions, casualty and theft losses, and miscellaneous deductions. Itemized deductions were claimed only if they exceeded the total standard deduction, with three exceptions. First, if a taxpayer was married and filing separately, and his or her spouse itemized deductions, the spouse was required to itemize as well. Second, taxpayers in several states were required to itemize deductions on their Federal tax returns if they wished to itemize on their State returns. Third, if a taxpayer benefited for alternative minimum tax purposes, they might itemize even though the standard deduction was larger. The total amount of itemized deductions was tabulated only from returns showing positive adjusted gross income.

If a taxpayer had AGI in excess of \$126,600 (\$63,300 if married filing separately), his or her itemized deductions may have been limited. The limitation did not apply to the deductions for medical and dental expenses, investment interest expenses, casualty or theft losses, and gambling losses. To arrive at allowable itemized deductions, total itemized deductions were reduced by the smaller of: a) 80 percent of the non-exempt deductions, or b) 3 percent of the amount of AGI in excess of \$126,600 (\$63,300). Therefore, total itemized deductions is the sum of the separate deductions cited above, less the itemized deduction limitation.

## Total Miscellaneous Deductions

See "Miscellaneous Itemized Deductions."

## Total Rent and Royalty Income or Loss

(line 26 plus lines 38 and 39, Schedule E)

This income concept consisted of all rent and royalty income and loss which was used in computing adjusted gross income, including farm rental income and suspended rental loss carry-over from prior years. It excluded the portion of rental

losses which was not deductible in computing adjusted gross income due to the passive loss rules. Income or loss from real estate mortgage investment conduits were also included in this concept.

## Total Statutory Adjustments

(line 32, Form 1040)

Total statutory adjustments was the sum of the individual adjustments to income (lines 23-31a).

## Total Tax Credits

(lines 48, 59a, Form 1040)

For this report, total tax credits consists of the following:

- (1) child care credit;
- (2) credit for the elderly and disabled;
- (3) child tax credit;
- (4) education credits;
- (5) adoption credit;
- (6) foreign tax credit;
- (7) general business credit;
- (8) minimum tax credit;
- (9) mortgage interest credit;
- (10) empowerment zone employment credit;
- (11) nonconventional source fuel credit and;
- (12) other tax credits;
- (13) earned income credit (EIC) used to offset income tax before credits

These amounts were deducted from income tax before credits to arrive at income tax after credits. For the statistics, the portion of the EIC which did not result in a negative amount is tabulated as "earned income credit used to offset income tax before credits." Any remaining EIC amount could be refunded or applied to other taxes, and is classified separately as "earned income credit refundable portion," or "earned income credit used to offset other taxes." All other credits were limited to the amount needed to offset income tax before credits and were not refundable or used to offset any other taxes.

## Total Tax Liability

(line 56 modified by the earned income credit, Form 1040)

Total tax liability was the sum of income tax after credits, the alternative minimum tax, self-employment tax, social security and Medicare tax on tips, tax from recomputing prior-year investment credits, taxes from individual retirement accounts, Section 72 penalty taxes, household employment taxes, tax on golden parachute payments and Form 4970 tax. These taxes were then reduced by the earned income credit used to offset all other taxes (defined under "Earned Income Credit). For the statistics, unlike the Form 1040, total tax liability does not include any advance earned income credit payments.

## Total Tax Payments

See "Tax Payments."

## Total Taxable IRA Distributions

See "Taxable IRA Distributions."

## Total Unlimited Miscellaneous Deductions

(line 27, Schedule A)

See "Miscellaneous Itemized Deductions."

## Type of Tax Computation

(line 40, Form 1040)

Tabulations in Table 3.1 include three methods of computing the tax on income subject to tax. These methods were:

- (1) regular tax, as computed from the tax tables or tax rate schedules accompanying the Forms 1040, 1040A, or 1040EZ. Schedule J, Farm Income Averaging returns are included with regular tax. (see also "Regular Tax Computation");
- (2) Form 8615, used to compute the tax on investment income of children under 14; and
- (3) Schedule D, Form 1040, used to compute the tax on long-term capital gains (in excess of

short-term capital losses.) This tax could be at various rates, 10, 20, 25, or 28 percent.

## Unemployment Compensation

(line 19, Form 1040)

All unemployment compensation received was taxable. It did not include any supplemental unemployment benefits received from a company-financed supplemental unemployment benefit fund, which were included in salaries and wages.

## Unreimbursed Employee Business Expenses

(line 20, Schedule A)

This item, added together with most other miscellaneous itemized deductions, was subject to a floor of 2 percent of AGI. Unreimbursed employee business expenses included travel, transportation, meal, and entertainment costs incurred while based at or away from home in the performance of job duties. In most cases, fifty percent of meal and entertainment expenses were deductible, and were calculated on Form 2106, *Employee Business Expenses*. Many other expenses such as union dues, safety equipment, uniforms, protective clothing, and physical examinations were also deductible. Travel expenses away from home which were paid or incurred were not deductible if the period of temporary employment was more than one year. The amounts reported in the statistics were prior to the 2 percent floor. (See also "Limited Miscellaneous Itemized Deductions.")

SOURCE: IRS, Individual Income Tax Returns—1999, Publication 1304, Revised 10-2001.